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DRAFT

REGIONAL ECONOMIC PROSPERITY STRATEGY

QUALITY OF LIFE FACTOR OF THE
REGIONAL GROWTH MANAGEMENT STRATEGY

San Diego



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**QUALITY OF LIFE FACTOR OF THE
REGIONAL GROWTH MANAGEMENT STRATEGY**

OCTOBER, 1993

San Diego



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October 29, 1993

A Message from the Advisory Committee:

Until just recently, little effort has been made to understand how changing conditions are affecting the regional economy, let alone try to influence its course. Yet, now more than ever, the region must be able to adapt to a continually shifting economic backdrop instead of simply relying on its past strengths. If ever we needed a strategic regional approach, we need it now.

Over the past two years a San Diego Association of Governments (SANDAG) committee has been working on evaluating the regional economy. First, the Advisory Committee assessed the economy's fundamental strengths and weaknesses. The assessment was the first step toward preparation of a plan for strategic action that could help our region chart its path through the looming economic restructuring of the 1990s into the next century. The first draft of a strategic plan for action is now complete. It is entitled the "Regional Economic Prosperity Strategy."

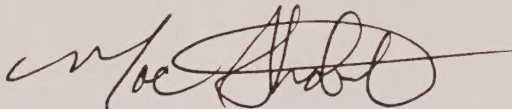
The Strategy, enclosed with this letter, identifies key issues that will help improve the condition of the local economy, and subsequently our standard of living. The Strategy calls for infrastructure investment and public policy support to strengthen the region's economic foundation and make it more competitive. It also contains recommendations on the roles for business, labor, education, and local government to aid in economic diversification. The Strategy's focus is to maintain and expand local businesses and create more well-paying jobs.

The Advisory Committee is convinced that economic prosperity is declining and will not return to the region unless we act together to aggressively implement the strategy's recommended actions. In addition, the Committee is just as convinced that the Strategy is just the first step. And, it should not be looked at as an answer, but a beginning.

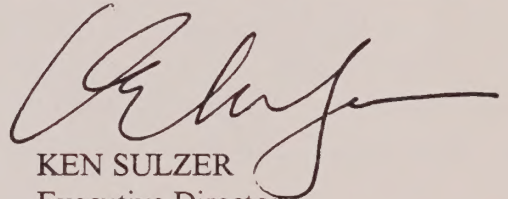
One clear message of the Committee's work is that old approaches and old solutions will not solve the problems we are currently facing. On the one hand, what had once been considered "social issues", namely education, and housing, must now be recognized for what they always were: "business issues". On the other hand, we must respond to current and future "global" changes, such as the end of the cold war and the expected growth in the importance of international trade. It is clear that we compete with the world whether we do it well or not.

If we're going to trigger a change in our economic and social conditions, we must bring the combined force of business, education and government to bear on the problem. For this reason, the Committee proposed as one of its key recommendations the establishment of an organization to help coordinate this Region's economic restructuring process. The purpose of the organization is to be a catalyst for improved economic performance.

Between now and the end of January, 1994, the draft Strategy will be circulated for public review. During this review process, we expect this recommendation regarding the organization to receive considerable attention. Your inquiries, ideas, constructive criticism and interest are encouraged because we are determined to benefit from the San Diego region's collective wisdom. Please let us know your views.



MAC STROBL
Chairman
Regional Economic
Prosperity Advisory Committee



KEN SULZER
Executive Director
San Diego
Association of Governments

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ABSTRACT

TITLE: Draft Regional Economic Prosperity Strategy

AUTHOR: San Diego Association of Governments

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DATE: October, 1993

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ABSTRACT: The SANDAG Regional Economic Development Strategy Advisory Committee prepared the Regional Economic Prosperity Strategy. This report includes an economic growth strategy and recommended actions designed to guide the San Diego region successfully through the social and economic restructuring that is expected to occur throughout the 1990's.

TABLE OF CONTENTS

PREFACE	1
SECTION 1: EXECUTIVE SUMMARY	7
SECTION 2: REGIONAL ECONOMIC PROSPERITY STRATEGY	19
Our Economic Challenges	19
Economic Standards and Objectives	21
A Strategy to Keep Us On Top	23
Investing in Infrastructure and Continuing Diversification	24
Investing in "Home Grown" Businesses	26
Investing in Education and Training	27
Improving the Environment for Business	28
Creating a Strategic Cooperative Approach	29
Investing Now	29
SECTION 3: RECOMMENDED ACTIONS	33
Capital Facility and Public Policy Programs	33
Government Regulations	38
Affordable Housing	45
Regional Economic Prosperity Organization	50
Monitor Strategy's Progress	54
SECTION 4: SERIES 8 REGIONAL ECONOMIC PROSPERITY GROWTH FORECAST	61
Introduction	61
Alternative Forecasts	62
Major Differences Between Forecasts	64
Employment Differences	64
Income Differences	65
Regionwide Economic Prosperity Forecast	66
Forecast Assumptions	69

SECTION 5: MONITORING THE ECONOMY 83

Background	83
Overview	84
Objective 1	88
Objective 2	91
Objective 3	95
Objective 4	101
Objective 5	105
Objective 6	106

APPENDICES

Appendix 1 - Evaluating Economic Prosperity in the San Diego Region . .	A-3
Appendix 2 - A Closer Look at the San Diego Region	A-77
Appendix 3 - Economic Development Agencies	A-107

LIST OF TABLES

Table 1	Selected Demographic and Economic Indicators Series 8 Regionwide Growth Forecast Comparison San Diego Region, 1980-2015	68
Table 2	Total Fertility Rate by Ethnic Group San Diego Region 1980, 1990 and 2015	70
Table 3	Life Expectancy at Birth by Sex and Ethnic Group San Diego Region 1980, 1990 and 2015	71
Table 4	Employment and Retirement Net Migration Distribution Factors by Sex and Ethnic Group	74
Table 5	Employment by Sector, San Diego Region, 1980-1990	103

LIST OF FIGURES

Figure F1	Proportion of Employment Generated by Industry (1995-2015) Difference Between Economic Prosperity Forecast and Historical Trends Forecast	64
Figure F2	Income Per Additional Person (1995-2015) Historical Trends Forecast Compared to Economic Prosperity Forecast	65
Figure M1	Annual Average Growth Rate of Real Per Capita Income and Population, United States, California and San Diego Region (1969-1990)	89
Figure M2	Annual Average Growth Rate of Real Per Capita Income and Population San Diego Region Compared to 23 Other California MSA's (1969-1990)	90
Figure M3	Percent Improvement in Dropout Rate, San Diego Region Compared to Other Metropolitan Areas (1980-1990)	96
Figure M4	Overall Dropout Rate, San Diego Region Compared to 20 Metropolitan Areas (1980-1990)	97
Figure M5	Educational Attainment of Persons 25 Years and Older San Diego Region (1990)	99
Figure M6	Percent of Population 25+ Who Did Not Complete High School, San Diego Region Compared to Other Metropolitan Areas (1990)	100
Figure M7	Change in Average Pay of High and Low Paying Sectors San Diego Region (1980-1990)	104
Figure M8	Consumer Price Index San Diego Region Compared to Other Metropolitan Areas (1987-1990)	105
Figure M9	Local Government Expenditures Per Capita, San Diego Region Compared to "Large" Counties (in 1990 Dollars)	107
Figure M10	Percent Change in Government Expenditures Per Capita San Diego Region Compared to "Large" Counties (1985-1990) . . .	108
Figure M11	Ratio of Local Government Expenditures Per Capita and Per Capita Income, San Diego Region Compared to Other Large Counties (1985 and 1990)	109

PREFACE

PREFACE

The San Diego Association of Governments (SANDAG) has produced a Regional Growth Management Strategy for the San Diego region. This strategy applies a quality of life approach to growth management. It establishes quality of life standards and objectives for the region and recommended actions are drawn from a set of state/federally mandated functional plans, and regionally initiated plans and programs. The purpose of the strategy is to link these mandates and regional initiatives together into a consistent plan. The plan is intended to facilitate decision making by elected officials on growth-related issues, creating a framework for managing growth in the region.

The Regional Growth Management Strategy (RGMS) is intended to help ensure that the impacts of the region's growth do not cause our quality of life to suffer. To maintain and improve our quality of life as the region continues to grow, the Strategy focuses on nine important environmental and economic factors. These Quality of Life factors are: Air Quality, Transportation System and Demand Management, Water, Sewage Treatment, Sensitive Lands Preservation, and Open Space Protection, Solid Waste Management, Hazardous Waste Management, Housing and Economic Prosperity. These factors were chosen because each addresses issues that affect the whole San Diego region, not just individual jurisdictions.

This report presents the objectives, findings, and recommended actions that support the Economic Prosperity factor of the Regional Growth Management Strategy.

This report, and a companion document, "Evaluating Economic Prosperity in the San Diego Region", produced by the SANDAG Regional Economic Development Strategy Advisory Committee, show that the San Diego region is currently facing many economic challenges. The Committee determined that a new economic development strategy is required to meet and overcome the challenges before us. The new strategy is based on a coordinated policy and investment plan that provides the human and physical infrastructure necessary to achieve the economic prosperity factor's quality of life standards and objectives. This Strategy should be viewed as a coordinated response to the economic and social restructuring that lies before us. A stronger economy will boost the community's ability to cope with structural changes and the government's capacity to respond to emerging needs.

SECTION 1

EXECUTIVE SUMMARY

Regional Growth Management Strategy

Summary

of the Draft

Regional Economic Prosperity Strategy

October 1993

Prepared by

San Diego Association of Governments
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The problem with our region's economy isn't just that we've lost jobs...

It would be easier to fix if that were the case. Our problem is that we're trying to survive as an economic region in the 1990s on an income that's lower in real dollars than the income we had in the 1970s. What's worse, we're headed on a track that will keep us at or below this level for the next 20 years.

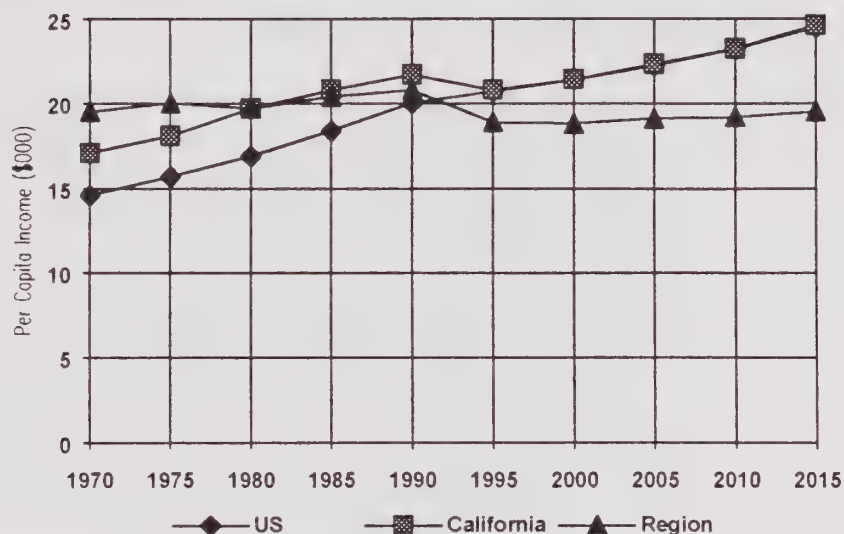
This is not a metaphor or paraphrase of our economic conditions. These are the facts as measured by per capita income (the region's total income divided by its total population), and here's what they reveal about our economy and the quality of life in our region.

- ◆ **The ratio of higher to lower paying jobs is the opposite of what it used to be.**

One of the reasons why our per capita income hasn't increased over the past 20 years is that we've added far more lower-paying than higher-paying jobs to our employment base. Between 1980 and 1990, for example, the number of service jobs increased from about 172,000 to over 316,000 (an 84% gain), making services our largest and fastest growing job sector. But service jobs also are among the lowest paying, with wages up to 60% lower than jobs in manufacturing and health services. Coupled with increases in population and unemployment, this trend can push per capita income down if the income from non-service jobs isn't high enough to offset the lower-paying jobs and other factors. And when one out of every three jobs is in services, as is the case now, it means that we must rely on the income from the other two to make up the difference.

Up until now, we've been able to maintain an economic balance of sorts, not moving ahead but at least keeping pace with our own past. In this context, the fact that per capita income has remained relatively constant over a 20-year period is a major accomplishment. But compared with the state and nation as a whole, we're losing ground. We've gone from having a per capita income that was 15% higher than the state's average and 35% higher than the nation's in 1970, to one that's 7% lower than the state's and only 4% higher than the nation's. If our job base continues to change along the line that it's headed, our per capita income will drop 20% below the state and national average over the next 20 years; and by 2015, we'll be 6% percent behind where we were in 1970.

Per Capita Income Trends and Forecasts for the Region, State, and Nation 1970-2015



Several factors make keeping pace no longer possible, and at least two have to do with jobs that we expect to lose or gain over time.

- Each job eliminated in our region by the loss of Defense contracts will trigger the loss of three additional jobs; and
- Out of every 100 jobs we gain between 1990 and 2015, about 70 will be in services and retail trade and fewer than 2 will be in manufacturing.

We still don't know the ultimate scale of the impacts due to canceled Defense contracts, but we do know that at least 8,000 aerospace jobs have already been eliminated and an additional 24,000 jobs will be affected by the loss. We also know that the economic forecasts for this region predict a net increase of only 4,000 manufacturing jobs between 1990 and 2015. This means that we'll have to add at least 12,000 manufacturing jobs, perhaps as many as 36,000, just to show a net gain of 4,000. We'll also be trying to replace manufacturing jobs at the same time that we're trying to balance the effects of adding another 100,000 lower-paying service jobs and 1.3 million more people.

Trends indicate that we'll come close to meeting the challenge, but the bottom line is a 6% drop in per capita income. While this decline may not seem significant, put in the context of a region with 3.8 million people in 2015, it translates into a \$4.8 billion loss in personal income.

- ♦ **The cost of living in the region is more than we can afford and more than we're actually paying.**

In contrast to our per capita income, the cost of living in our region has risen faster than either the state or national average. More specifically, as measured by consumer price index comparisons, the price we pay for our goods and services has risen faster than in most of the areas that compete with us for jobs, including other parts of Southern California, the Pacific Northwest, and the Southeast. A similar pattern holds when we measure the cost solely in terms of housing, food, transportation, and health care, except that we fare slightly better by comparison with our immediate neighbors to the north. But our main problem isn't just how we compare with other regions; it's that we can't afford the high cost of living and of doing business here at home.

A prime example of this problem is the fact that most people in our region can't afford to buy a house. In fact, the average household in the region today would have to increase its income by 50% to afford the down payment on a median-priced (\$178,000) home. Given the trend in lower-paying jobs and higher-priced housing, it's not surprising that the proportion of homeowners among the region's households fell between 1980 and 1990 and is now down to 54%. This ratio ranks us 76th among 80 other major metropolitan areas.

The high cost of housing also affects decisions about where businesses locate and in most cases literally includes the high cost of doing business here. Fees imposed on new construction, for example, can add as much as \$25,000 to the cost of a new home. On average, they add nearly \$7 per square foot to the cost of residential development, more than \$8 per square foot for commercial buildings, and about \$4 per square foot for industrial sites. The flip side of the added cost to business, however, is that we also depend on the fees to cover the cost of everything from sewer lines to school sites for new development. In this sense, the high cost of doing business reflects the actual costs of living here; or rather, it would if we were actually covering the costs.

The problem for our businesses and communities alike is that we're not covering the cost of the public services and facilities that we already have or the ones that we know we need. At last count, the cash we currently collect from all sources, including federal and state programs, will be \$12.9 billion short of what we need in the next ten years just to catch up on deferred maintenance, make repairs, and build new facilities. What's worse, the \$12.9 billion doesn't include the costs of programs and actions that are mandated but not funded by federal or state government, such as compliance with air quality and endangered species laws.

As with the Defense contract cutbacks, we're not yet sure what the ultimate impacts of "catch-up" and "mandated" spending will be on our local economy. We do know, however, that the very fact that the price tag keeps changing adds to the reasons why some businesses leave and others stay away. We also know that changes in federal, state, and local regulations and in the way the laws are administered add to the cost and confusion. Combined, these factors make uncertainty one of the highest costs of doing business here.

♦ **We're losing our competitive edge because we're losing our ability to compete.**

Finally, in addition to losing ground in per capita income and in controlling the cost of living, we're losing the talent and tools that we need to compete. Specifically, we aren't keeping pace with changes in our labor force and changes in what businesses need to function and expand.

The key change in our labor force is that, like our businesses, it is becoming more and more "homegrown," meaning that over time it will consist primarily of people born or raised here. This change is striking because it reflects an end to the influx of people attracted to the region because of the number and types of available jobs. It also means that the businesses we have and the ones we want to attract will depend on the skills of people who live here. But will those skills match the jobs, especially in the industries that offer higher wages? If trends continue, the likely answer is no for two primary reasons:

- One out of every four persons 18 years or older has less than a high school education; and
- Neither our schools nor our businesses are structured to retrain workers from one sector for the skills required in another.

A skilled labor force, however, isn't the only thing that businesses can't do without. To function and compete within their markets, businesses require the same type of public services and facilities used by our households, such as roads, airports, electricity, water, sewers, landfills, and phones. In fact, the day-to-day operations of most business are totally dependent on the quality and reliability of such services and facilities. Some businesses also have special needs, such as access to disposal sites for hazardous and low-level radioactive waste or special telecommunication lines to link computers and transfer data. Typically, the more specialized the industry is, the more specialized the infrastructure needs of that industry will be; and, if the industry is involved in the development of new technologies, the more likely its needs will change over time.

If we want to keep and add the types of businesses that provide higher-paying jobs, we need the types of public services and facilities that can provide for and adapt to their needs. Unfortunately, the system we have is ill-equipped to either. To be more specific:

- Our international airport is constrained by its surroundings and is nearing its maximum carrying capacity;
- At least 90% of our water is imported and conveyed through a system that we don't control;
- Our metro sewage system and some of our landfills are at or near capacity; and
- There's no low-level radioactive or hazardous waste disposal site within 200 miles.

As a result, we're on the verge of taking a 1970s infrastructure as well as a 1970s income into the next century. Unless, that is, we choose not to.

If we choose to make changes, we can't take a "business-as-usual" approach...

We may not have the power to completely control our economic outlook, but we do have an opportunity to change certain trends in ways that will work to our advantage. This change won't be easy and won't happen by chance. In some cases, it will require that we find ways to increase the number of jobs in certain sectors over and above what trends predict. In other cases, it will require that we make immediate and long-term economic investments in new facilities and technologies. In all cases, it will require that business, government, and institutions act together and act now.

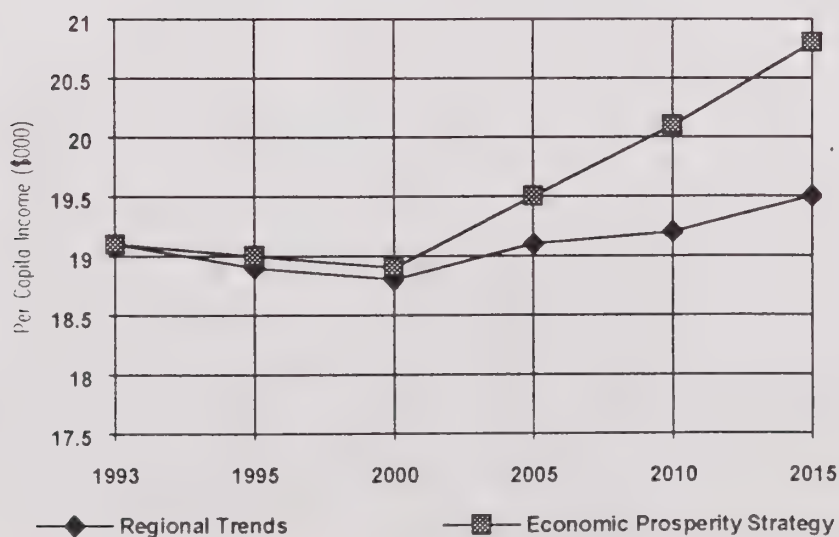
- **We must set and meet employment goals that will reverse the decline in per capita income.**

Rather than waiting for and reacting to the final toll of Defense contract cuts and other job losses, we need to target and go after the type and mix of businesses that will increase the number and proportion of higher-paying jobs in the region. Based on what we know about our existing job base and trends, we should aim at a net increase of 350,000 jobs by 2015, including more than 100,000 higher-paying jobs. It also means that we will have to add more jobs than currently projected under existing trends — 59,000 more jobs overall and up to 15,000 more jobs in individual sectors. Targeted increases and the "extra" effort needed to surpass current trends are as follows.

<i>Business Sector</i>	<i>Net Increase 1990-2015</i>	<i>Number of Jobs Above Trends</i>
Construction	9,000	2,000
Manufacturing	12,000	8,000
Trans., Comm., & Utilities	14,000	3,000
Trade	97,000	14,000
Finance, Insurance, & Real Estate	26,000	4,000
Services	116,000	15,000
Government	41,000	6,000
Self-Employed & Domestic	36,000	7,000
Total	350,000	59,000

This level and mix of employment would reverse the decline in per capita income and increase per capita income by 9% between now and 2015. It also would accommodate the expanded labor force that will result from region's expected population growth over the same period, including the population growth attributable to the targeted extra jobs. That "extra" population growth is likely to be about 69,000 people more than that 1.2 million predicted under existing trends. However, in contrast to existing trends, population growth would be accompanied by an increase rather than a decline in per capita income. Put in the context of a region with 3.8 million people in 2015, this translates into a \$8.5 billion gain rather than a \$4.8 billion loss in personal income.

*Regional Per Capita Income under Existing Trends
and with Economic Prosperity Strategy
1993-2015*



- ♦ **We must gain more control over the cost of living, working, and investing in our region.**

If we can't make our region an affordable place to live, work, and invest, we won't be able to meet our employment goals and many other of our quality of life objectives. This means we must find a way to curb every factor in our reach that drives up the cost and adds to the economic uncertainty of living and doing business here. We know that many of the factors are outside our control, but we can't let that deter us from acting in at least three areas where we can make a difference: affordable housing, local business and development costs, and government regulation. What can we do?

- We can make housing more affordable by:
 - increasing household incomes by adding more higher-paying jobs to the region,
 - controlling the added costs of local regulations on land and home prices while still protecting the quality of our environment, and
 - adapting successful models of affordable housing, including homegrown examples, to fit our communities.
- We can increase certainty regarding business and development costs by:
 - consolidating the collection of development impact fees,
 - streamlining local permit review and approval processes,
 - finding regional solutions to shared problems, and
 - setting standards for public facilities and services that we know we can afford.
- We can seek changes to federal, state, and local regulations to ensure that our laws are:
 - cost effective,
 - based on achievable standards that benefit our region,
 - evaluated regularly to ensure that they still on the mark, and
 - administered in a way that the people and businesses who must comply can understand.

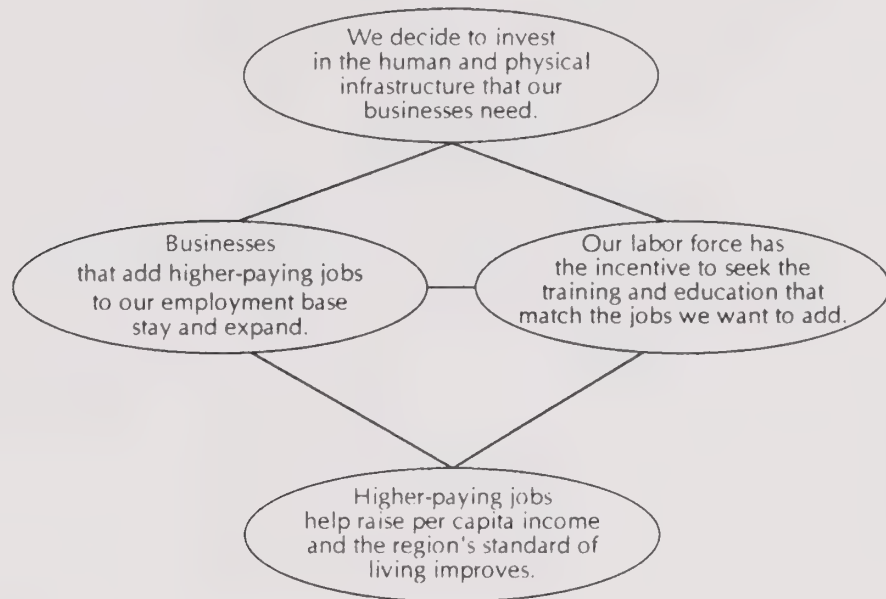
- ♦ **We need to invest in our homegrown industries and in the human and physical infrastructure they need to expand.**

Most of our new jobs in the future will come from homegrown entrepreneurs and businesses like the ones that currently account for one out of every two jobs added to the region. Most of these businesses are small (fewer than 50 employees) and less than 5 years old. They include high technology and emerging growth industries, many of them are spawned by the work conducted by our universities and research institutes. But unless we are more aggressive in our support for these businesses, we're likely to see them exit the region. This already is the trend among research-oriented firms, who do their product development but not their production here.

To change this trend, we must start a chain of investments in the human resources, public services, public facilities, and market conditions that our homegrown industries need to continue and expand. This chain can begin with lowering the cost of production for businesses that offer higher paying jobs, thereby providing them with an incentive to stay. At the same time, we must develop a labor force suited for the jobs we're targeting by increasing worker skills and productivity through education and training. We also must make decisions today about the quality of facilities and services we want in our future. Otherwise we won't be able to provide the infrastructure and create the market conditions that support business expansion. Here too there's a list of things we can do to help.

- We can seek legislation authorizing water transfers, as well as state control of the federal Central Valley (water) Project.
- We can improve access to local, national, and international markets via our highways, railways, shipping ports, and airport and through our trade relationships.
- We can create a world-class telecommunications network that suits and expands the technological strengths of our businesses, universities, and research institutes.
- We can provide environmentally-sound, cost effective public facilities and services for sewage treatment and solid waste disposal.
- We can support regional and state efforts to ensure that our businesses have access to low-level radioactive and hazardous waste management facilities.

Interaction of Economic Infrastructure Investments



- ♦ **We must invent a better way for government, businesses, and education to interact.**

Finally, if we're going to trigger a change in our economic conditions, we must bring the combined force of government, businesses, and education to bear on the problem. But how do we get the forces combined, and what's the best combination for what we need to do?

Basically, we need to organize ourselves in a way that takes advantage of our economic and political strengths. We need a type of organization that's as innovative as our most entrepreneurial new industries and as successful as the partnerships that built our \$4 billion visitor industry. Government will have a role in forming this new organization; but government's job is to help our economy work better, not to run it or try to solve all its problems. We already know that what we need to do is beyond government's power and financial resources on any level — local, regional, state, or federal. However, government can help us build consensus for action, especially on the local and regional level where it can convene the forums we need to shape our ideas about how this new organization might work.

Bottom line, our economic prosperity won't work unless we form a partnership that brings all of our economic interests together. And if we don't form that partnership now, we risk losing our chance and our ability to raise and protect the standard of living for the people who live here.

SECTION 2
REGIONAL ECONOMIC
PROSPERITY STRATEGY

SECTION 2

REGIONAL ECONOMIC PROSPERITY STRATEGY

The San Diego region is currently facing many serious economic challenges. But challenges are also opportunities. Our future economic prosperity will depend upon our response to these challenges and our ability to take advantage of the opportunities they offer.

Thanks to a number of advantages -- most notably that this is a wonderful place to live and that the Department of Defense chose this region to develop a large portion of its operations -- we have grown accustomed to a level of economic stability most regions can only envy; and this happened without much effort on our part.

OUR ECONOMIC CHALLENGES

This study points out that much of our current economic prosperity is rooted in the past, and we are only now beginning to think about providing for the future. Although, our economy is built on a strong foundation of physical and human resources, the reality is that key components of the foundation may be eroding, and we may not be preparing to take advantage of future opportunities.

Economic stability, which has been our hallmark, is being replaced with economic decline, stagnation, and uncertainty. Since the current recession began in 1990, its impact on the local economy has been more severe than past recessions. The current recession began to take hold locally in June, 1990. Since that time, through June 1993, the number of wage and salary jobs has declined by over 67,000, the unemployment rate has risen by 4 percentage points (each point adds approximately 10,000 additional people to the number of unemployed workers), and our real per capita income, a measure of our standard of living, has fallen by 10 percent.

During past recessions, this region has lost about 5,000 jobs and real per capita income has fallen by about 2 percent during any single economic downturn (real per capita income fell by 6 percent during the 1980-1982 recession, however the main reason for its decline was the double digit rates of inflation, not job and payroll losses as is the case for this recession). In addition, locally, past recessions have lasted about one year, whereas this is the third year for this current recession and were not sure its over yet. Our unemployment rate has been higher, although, this is the largest number of unemployed persons and our labor force participation rate has fallen since the recession began. This may mean that we have a large number of discouraged workers. These discouraged workers are unemployed persons that are no longer counted as part of the labor force and therefore are not counted in the unemployment rate. To survive these discouraged workers may be participating in the underground economy, where they may work for cash that goes unreported.

Locally, these problems are the result of a slow national recovery, the real estate, savings and loan and banking foreclosures and bankruptcies, the current and planned Department of Defense expenditure cutbacks, and our inability to more fully participate in the growing international trade market place. In addition, governments at all levels (federal, state, and local) are experiencing expenditure overruns or revenue shortfalls. Locally and statewide, population growth has continued to be relatively strong throughout the economic downturn. The combined impact of these economic problems and population growth make it more difficult for the region to regain the economic ground and stability it has lost.

Some of the economic problems described above are cyclical in nature, and, therefore, short-term. These include the slow national turnaround, and the real estate and financial institution foreclosures and bankruptcies. Over time these problems will correct themselves. The rollback in Department of Defense expenditures, however, is secular, a restructuring of the local economy that has long-term consequences. In addition, we are not as fully prepared as we should be to take advantage of the growing opportunities in international trade. To correct these problems requires very specific, coordinated action on the part of this region.

Also, there are risks associated with taking no action. One of the findings made in SANDAG's Economic Prosperity report was that growth in the region's standard of living, measured by the rate of change in real per capita income, has stagnated over the past 10 years, and we are continuing to lose ground compared to the national average.

If this trend continues, as SANDAG's preliminary Series 8 Regional Growth Forecast shows, we will be compromising our future economic prosperity and quality of life by accepting a lower standard of living. For example, the ability of this region to achieve some of its local "quality of life standards," such as two police per thousand people, quicker paramedic and fire department response time, decrease traffic congestion, how often streets are cleaned or repaired, air and water quality, is dependent on our ability to afford the standards. Not being able to afford the standards may mean compromising on the levels we have set.

ECONOMIC STANDARDS AND OBJECTIVES

The Economic Standards and Objectives for economic prosperity are developed locally. Currently, however, there is not a "single" economic prosperity plan for the region. Rather, the fate of economic prosperity is in the hands of many businesses, organizations and agencies that for the most part do not coordinate their planning efforts. As a first step in developing local Standards and Objectives, SANDAG's Regional Economic Development Strategy Advisory Committee produced a report "Evaluating Economic Prosperity in the San Diego Region", that evaluated the condition of economic prosperity in the region. This evaluation procedure was in part based upon identifying other metropolitan areas that could be used to compare against the San Diego region. Of the 333 metropolitan areas in the United States, 20 with characteristics most similar to the San Diego region were chosen for comparison. Also, in order to evaluate how the region has fared over time, with respect to larger economic forces, the comparison process included state and national trends. Thus, an integral part of the Committee's report is a system designed to judge economic prosperity, and from that assessment the quality of life standards and

objectives for economic prosperity were developed. The six quality of life standards and objectives developed by the Committee for the Economic Prosperity factor are listed below.

1. Ensure a rising standard of living for the region's residents, that is equal to or above other comparable metropolitan areas. Changes in standard of living can be measured by real per capita income.
2. Encourage the enhancement and development of regional capital facilities (infrastructure) that are necessary to encourage the expansion and retention of local businesses. Initially, our success can be measured by the region's ability to provide infrastructure that facilitate economic growth, such as, better access and communications with international trade markets, cost effective access to a low-radiation waste storage site, a more reliable water supply, and cost-effective capacity and environmentally safe solid waste sites and sewage treatment facilities. Other public facilities are listed under each factor of the Regional Growth Management Strategy.
3. Ensure a more productive labor force by properly educating, training, and preparing new entrants. Initially, our success in increasing labor force productivity can be measured by our ability to reverse the rising trends in births to unwed mothers, the status school dropout rate, and the number of crimes committed per 1000 residents. These indicators should be lowered to a level below or equal to other comparable metro areas.
4. Encourage the expansion of locally owned businesses that will create job opportunities that require skilled labor. A general measure of success in this area will be maintaining an unemployment rate equal to or below comparable metro areas. More specifically, our success can be measured by the number of jobs created in industries with wage rates equal to or above the average for the manufacturing sector.

5. Reduce the rise in the region's cost of living to a level equal to or below other comparable metro regions. Our success can be measured by the rate of change in the consumer price index for each area.

6. Maintain the cost of local government facilities and services at a level equal to or below other comparable metro regions. This can be measured as a percent, determined by the ratio of local government expenditures per capita over personal income per capita.

As with the other Regional Growth Management factors, the Standards and Objectives for economic prosperity are measurable, so we can monitor how well we're doing in meeting them each year. A Consistency/Monitoring Checklist will be used by local jurisdictions and regional single-purpose agencies to determine whether their policies, plans and ordinances are consistent with the Standards and Objectives of each of the nine Quality of Life factors, that together make up the Regional Growth Management Strategy.

A STRATEGY TO KEEP US ON TOP

It is a premise of this study that as a region we want to "stay on top", regain our lost economic ground and stability. To do so, the Committee felt a new strategy would be required that will provide the business, educational, and governmental support, cooperation and investment necessary to achieve and maintain a strong and stable local economy. This must include the provision of job opportunities that result in a rising standard of living, one of the measures of an improved quality of life for the region's residents.

Our future economic prosperity depends upon a timely response to the challenges we face and our ability to take advantage of the opportunities they offer. The SANDAG Regional Economic Development Strategy Advisory Committee has created a strategy designed to overcome the economic restructuring challenges that we face. The strategy is ambitious, yet simple. The

strategy calls for infrastructure investment and public policy support in order to strengthen the region's economic foundation. The strategy will strengthen our existing industries, our emerging growth companies, and our universities and research and development institutions that create new enterprises. These are the region's opportunities, the foundations on which our future economic prosperity depends. The region should take advantage of and build upon these opportunities by investing in their future. This investment will provide the region with the ability to influence and direct the quality of the region's projected growth.

The following points provide an outline of the committee's proposed economic prosperity strategy. Following these points are the committee's recommended actions and programs, which if implemented will provide the necessary foundation and first steps to achieving the economic prosperity factor's quality of life standards and objectives. If met, these standards and objectives will provide the strategy necessary to get the region successfully through the economic and social restructuring it faces today.

INVESTING IN INFRASTRUCTURE AND CONTINUING DIVERSIFICATION

A new economic development strategy is needed to overcome the structural problems we now face. The new strategy is based on a coordinated policy and investment plan that provides the human and physical infrastructure necessary to achieve regional economic prosperity. This investment strategy is designed to provide our existing and emerging growth industries, that create high value added job opportunities, with the fundamental factors of production that will increase their productivity. The increase in productivity will help foster the kind of environment necessary to make this region a competitive location in which businesses can expand and invest.

For nearly five decades, Department of Defense expenditures have insulated this region from much of the national, private economy's competitive forces. Our repeated successes in the defense area have tended to mask any indications of sectoral or competitive weakness in other

industries. This point was made in the "Draft #1, February 25, 1993, Regional Economic Prosperity Opportunities and Constraints Analysis, a report from the Advisory Committee, which reviewed the importance of local and national business location or site selection criteria.

This report reviewed some of the criteria considered important in local and national site selection. Nationwide, criteria such as market access, public infrastructure (water, energy, transportation), and state and local taxes are considered among the most important. Locally, these criteria are not considered as important. One explanation for this difference is that firms which consider these criteria important, have recognized that the San Diego region is deficient, and have selected another location. These differences, if they are allowed to remain, may hinder our local efforts to retain the expansion of companies in our emerging growth industries.

The proposed strategy is designed to provide the fundamental infrastructure required by our high value added industries, primarily through investment or public policy action. The infrastructure items include a more secure water supply, access to hazardous and low radiation waste storage sites, adequate sewage and solid waste capacity, and better direct access to and communications with the growing international trade markets. Infrastructure investment in these areas would contribute to the prosperity of all local businesses.

We also must continue to diversify our economy's base. Two of our most visible and successful local industries are tourism and the uniformed military. Tourism and the military, for example, have given the San Diego region economic stability, as well as the ability to maintain a relatively low unemployment rate. These are important attributes. Other areas, at times, have experienced significantly worse economic downturns than this region. Part of the reason why this region has been spared is the strength that these stable industries have provided.

The region has invested heavily in some of these stable, low value added industries. Visitor industry expansion has been helped by investing in infrastructure like Mission Bay, Balboa Park, the San Diego Zoo and Wild Animal Park, Sea World, the Convention Center, and Cruise Ship Terminals. Infrastructure for the Uniformed Military includes the ship yards, submarine bases,

Naval air bases, and training facilities, such as Camp Pendleton. The region's major retail trade centers, auto malls and other redevelopment projects are assisted with their specific infrastructure requirements. The aggregate investment in these areas is proof of the region's commitment to a diversified economy.

INVESTING IN "HOME GROWN" BUSINESSES

Most of this region's new job opportunities will come from "home grown" entrepreneurs and businesses, not from outsiders. Between 75 and 80 percent of net new employment growth comes from new business startups and on-site expansions of existing businesses, and more than half of all new jobs are produced by independent businesses less than 5 years old. Small businesses, those with fewer than 50 employees, are credited with providing two of every three new jobs. In the San Diego region, 95 percent of the businesses have fewer than 50 employees, and 61 percent report having between 0 and 4 employees.

Investing in our "home grown" industries will take advantage of our existing strengths. For this aspect of the economic prosperity strategy to be successful, it is necessary that the region have an environment that spawns new business enterprises, as well as a foundation of existing and emerging growth companies that are expected to be growth leaders in the near future. In this area the San Diego region is well endowed. We have an established base of businesses that are defined as high technology industries, producing high-value added goods and services, such as engines and turbines, office and computing machinery, communication equipment, aircraft, and scientific instruments. We have an expanding base of companies in emerging growth industries, such as drugs, medicines, medical and precision measurement instruments (bio-tech, bio-med), environmental technologies/services, fiber optics, and microelectronics. And our collection of universities and research and development institutions provides an environment that is conducive to the creation of new enterprises. These home grown high-value added industries and fledgling firms should be supported more aggressively.

INVESTING IN EDUCATION AND TRAINING

Investing in the productivity of the human and physical components of production will set off a chain-of-events that begins with lowering the cost of production for industries that offer higher paying job opportunities. We can then retain their investment and expansion.

In a strategy that encourages the expansion of high value-added jobs, the good job opportunities will require workers to be properly prepared through education and technical training. High value-added jobs pay higher wages because they require the worker to be more productive, which is achieved primarily through education and training.

Higher paying jobs help insure a rising standard of living. The requirements and benefits of these jobs may provide the incentive to participate in the labor force, which may, in turn, lower high school drop out rates and other related social problems that affect the productivity of our labor force.

In addition, the expansion of high value added jobs, provided the expansion is internally generated, will help manage our population growth. These high value added jobs require fewer employees per unit of output, which would lower the rate of employment related migration. Yet, these jobs provide higher wages and more tax revenues per employee, which may lower the marginal demand for public assistance and provide the public sector with more resources that can be used to help maintain the overall Quality of Life standards we have set.

These are compelling reasons for moving ahead with such an infrastructure investment strategy. And, there are risks associated with taking no action. One of the findings made in the Economic Prosperity report was that growth in the region's standard of living, measured by the rate of change in real per capita income, has stagnated over the past 10 years, and we are continuing to lose ground compared to the national average.

If this trend continues, as SANDAG's preliminary Series 8 Regional Growth Forecast shows, we will be compromising our future economic prosperity and quality of life, resulting in a lower standard of living. For example, the ability of this region to achieve some of its local "quality of life standards," such as two police per thousand people, quicker paramedic and fire department response time, decreasing traffic congestion, how often streets are cleaned or repaired, air and water quality, is dependent on our ability to afford the standards. Not being able to afford the standards may mean compromising on the levels we have set.

IMPROVING THE ENVIRONMENT FOR BUSINESS

An important component of this proposed investment and public policy strategy is for government to consider actions that will improve the environment for business. One way to improve the business environment is by reducing the costs imposed on business by government. This will not and should not compromise environmental standards. To reduce costs, government should consider actions in two areas: regulatory reform and privatization. Regulations affecting business should be (a) cost effective, (b) administered consistently using procedures understandable to those being regulated, (c) evaluated periodically to ensure that they are directed toward and specifically contribute to the standard or objective to be achieved, and, (d) based on achievable and beneficial standards or objectives.

Services provided to the public should be efficient and reliable. Neither the public nor the private sector is innately more efficient and reliable than the other. Government should be willing to consider both public agency and private sector alternatives in its provision of public services. "Privatizing" is a valid option.

Considering both alternatives would open services to potential competition, creating choices for both the sponsoring governmental agency and for the customer.

Having a choice in providing services fosters a more informed opinion about how tax money should be spent. It also encourages frequent performance evaluations, to determine if citizens are getting their money's worth in public services.

CREATING A STRATEGIC COOPERATIVE APPROACH

A key to successfully dealing with this restructuring process is a strategic and cooperative approach to easing the shift of this region's labor and capital resources from less efficient activities and facilities to more modern, higher-value added per employee activities and facilities. The pace and scale of potential economic change in this region, and the scope of opportunities and vulnerabilities may mean that local municipalities should consider a partnership to address all of this region's economic restructuring needs. A partnership of business, education and government needs to be organized through the establishment of a regional economic prosperity organization. This organization is necessary to help coordinate this region's economic restructuring process.

In this increasingly competitive world a partnership among education, business and labor, facilitated by government, is becoming the standard model for success. The role of government in this economic prosperity strategy is seen as a vehicle for communications and building consensus for action. Government should be a facilitator of change that understands and works within the larger competitive forces which shape the economy. Such a cooperative approach is the vision of this strategy.

INVESTING NOW

Our future economic prosperity depends upon a timely response to the challenges we face and our ability to take advantage of the opportunities they offer. The SANDAG Regional Economic Development Strategy Advisory Committee has created a strategy designed to overcome the economic restructuring challenges that we face. The strategy is ambitious, yet simple. The

strategy calls for infrastructure investment and public policy support in order to strengthen the region's economic foundation. The strategy will strengthen our existing industries, our emerging growth companies, and our universities and research and development institutions that create new enterprises. These are the region's opportunities, the foundations on which our future economic prosperity depends. The region can influence the quality of our future growth by:

Investing in infrastructure and continuing to diversify,

Investing in "home grown" business,

Investing in education and training,

Improving the environment for businesses,

Creating a strategic and cooperative approach, and

Investing now.

The Regional Economic Prosperity Strategy should be viewed as a strategic and coordinated response to the economic and social restructuring that lies before us. This strategy will provide the business, educational, and governmental support, cooperation and investment necessary to achieve and maintain a strong and stable local economy, including the provision of job opportunities that result in a rising standard of living, one of the measures of an improved quality of life for the region's residents.

SECTION 3

RECOMMENDED ACTIONS

SECTION 3

RECOMMENDED ACTIONS

1. **Identify, assign responsibility, and schedule action on the regional capital facility and public policy requirements necessary to implement the Regional Economic Prosperity Strategy. These requirements include:**
 - Improved access to a secure water supply,**
 - Improved access to local and international markets, and an**
 - Improved telecommunications network.**

Discussion

The major infrastructure concerns of this region that may not be addressed by changes in government regulations include, improved local and international market access (transportation-highway, rail, port and air service), improved telecommunications and fiber optics system, and a more secure water supply. Public and private infrastructure investment in these areas are necessary to remove the physical disincentives to local business retention efforts.

We are now facing choices and decisions about infrastructure that are required by our existing and emerging high value added growth industries, that in the past, were made for us by the federal government.

To move forward, this region may need to bring together representatives from the business community, the educational institutions, and local elected officials. Working together on the toughest regional infrastructure issues, this kind of group may be able to forge a decision on each issue. The region could use each decision, whatever it may be, as one of the many infrastructure cornerstones upon which the region's economic future will be constructed. The economic restructuring process would be shaped by these decisions.

Presented below are suggestions to help achieve the objectives stated above.

Implement the County Water Authority's Water Resources Plan and Support Transfer of the Control of the Central Valley Project from the Federal Government to the State of California

The San Diego region's economic well-being and quality of life depend heavily upon importing a reliable supply of water and maintaining clean coastal waters, bays, reservoirs, streams, and groundwater. More than 90 percent of the region's water supply is imported by the San Diego County Water Authority (CWA) from the Metropolitan Water District. The water comes from the Colorado River and northern California and is distributed to the CWA's member agencies, which supply water to 98 percent of the people who live and work in San Diego County.

In its mission to provide member agencies with a safe and reliable water supply, the CWA is preparing a Water Resources Plan which details efforts to develop local sources, improve the reliability of imported supplies, and provide storage facilities. The Water Resources Plan recognizes physical and fiscal limitations on the amount of local supply development potential and emphasizes the need to restore and improve the reliability of the region's imported supplies.

A multi-faceted strategy is needed to provide a reliable water supply including:

- provision of local and regional water storage, distribution and treatment facilities;
- diversification of local supplies through conservation, reclamation, recovery and conjunctive use of groundwater;
- adoption of state water transfer legislation which provides for user initiated transfers; and
- a positive resolution to fisheries, drinking water quality and water supply security and reliability issues for water originating in the Sacramento-San Joaquin Delta.

The federal government is a major investor in California's water. The U. S. Bureau of Reclamation owns and operates the Central Valley Project. The CVP was built at the state's request during the Great Depression. Today, it controls more water than any other entity in

California, about 20 percent of the state's total in a non-drought year. Almost all of the CVP water goes to farms in the Sacramento and San Joaquin valleys.

Control of the Central Valley Project should be transferred from the federal government to California. Most Californians agree that we need a statewide water policy. Such a policy will not be possible as long as decisions about our largest water project are made outside the state.

Equally important to California's and the San Diego region's water future is the need for state water transfer legislation to complement federal policy enacted last year by Congress in the Central Valley Project Improvement Act.

The federal act establishes a relatively free market for water transfers. As a result, the San Diego region and other urban areas have a new option available to help maintain a reliable water supply.

A state transfer policy would make this option even more useful. The availability of water transfers allows agencies like CWA to know that, when a shortage is imminent, they would be able to purchase water from willing sellers to make up the shortfall. For example, the Authority could determine that sizable prolonged water shortages are harmful to this region's \$50 billion economy and its environment. It could thus turn to the water market to help make up for reduced imported water supplies.

Improvements in the control of our water supply combined with the flexibility of a water market that can be tapped during times of a water shortage may provide the type of resource guarantee that is required to get local emerging growth industries to make long-term capital investment commitments to the San Diego region.

Improve the region's access to local and international markets.

The prosperity of our local economy will in part be determined by our access to markets. Both the purchase and sale of goods and services require market access.

One level of accessibility can be defined by access north to the southern California markets and south to Tijuana, Mexico. A second level of access can be defined as international trade, say with Mexico and the Pacific Rim countries.

Currently this region has agencies such as SANDAG, that works in cooperation with local, state and federal agencies to maintain and improve the region's access to our markets directly north and south. Any local transportation access issue that may need attention should be referred to SANDAG.

The region's access to international markets (other than Tijuana) is not being planned for in the same way. For example, the many studies on an airport facility for this region do not consider our role in international trade. The air service demands are estimated based on internal growth, not our trade relationship with other countries.

Our economic and trade relationship with other countries will change in the future. International trade, for example, is expected to account for a majority of the growth in the nations Gross Domestic Product over the coming decades. How well we position ourselves locally to participate in the international trade market will help determine our future economic prosperity.

Improve the region's telecommunications network.

Telecommunications and information technology will be major factors in defining tomorrow's world. As the world moves toward global interconnectivity, the economic and social rewards will go to the regions that organize and participate effectively in the information-led economy that is emerging.

A report by the International Center for Communications, San Diego State University, points out that improvement in this area of technology is rapidly being embraced as a national goal. Legislation has been introduced into the Senate and House calling for the creation of a coast-to-coast broadband network by 2015. This network would help us compete effectively with Japan, Germany, France and England, countries which have introduced their own programs.

There is wide spread agreement over the growing importance of telecommunications to economic development, as we move from a manufacturing-based economy toward a service-based one. Increasingly, the product of business tends to be viewed as information.

Telecommunications technology can play an integral role in many arenas outside of business. It can enhance social welfare by improving the delivery of critical services, such as education, health care, and emergency services, and cut down on congestion and pollution by facilitating job or neighborhood based workplaces via telecommuting.

2. **Recommend that federal, state and local regulations affecting business be:**
- * based on achievable and beneficial standards or objectives;**
 - * evaluated periodically to ensure that they are directed toward and contribute to the standard or objective to be achieved;**
 - * cost effective; and**
 - * administered consistently using procedures understandable to those being regulated.**

Discussion

Many people believe local, state and federal regulations contribute to California's recession. Whether they do or not, perception is as important as reality.

Certainly, poor business conditions make regulations more difficult to accept and carry out. People work to make money; adherence to regulations usually costs money, reducing income and profits. (Of course, failure to clean up environmental problems costs us as well.)

Since the recession began, local governments have announced that they are "streamlining" their regulations to at least clarify the rules and speed up the regulatory process, if not to reduce their requirements. Some federal and state agencies are doing the same thing.

Federal and state regulations affect local governments in two important ways. First, local governments are subject to them. They are thus a burden on local governments just as they are on the private sector. Second, local implementation of federal and state regulations frequently results in additional local- another layer of- regulation.

Presented below are suggestions to help achieve the objective stated above, using as examples a few of the more widely publicized federal and state regulations affecting the San Diego region.

Implementation of the Federal Clean Water Act

The Federal Clean Water Act became law in 1972. Since then, most state and local governments have been working to meet its requirements, particularly for sewage treatment. It will be considered for reauthorization by the current 103rd Congress.

The Act is important to the San Diego region because the member agencies of the Metropolitan Sewer System must modify the system to meet the law's sewage treatment requirements. The Metro System currently provides "primary treatment" of sewage and the Clean Water Act requires "secondary treatment." (The sewage agencies in north county already have converted their systems to secondary treatment.) There is evidence that secondary sewage treatment would not be, in the words of Recommendation No. 3, above, "beneficial" to the ocean off Point Loma where the treated sewage is pumped, or "cost effective" for the residents paying for the system.

Unfortunately, over the years since passage of the Act, the government has abandoned "incentive-based" federalism and replaced it with "regulatory-based" federalism. It also has stopped offering grants to help pay for sewage system improvements. Consequently, this lack of federal assistance, combined with higher wastewater treatment standards, forces local jurisdictions to charge higher sewage fees for residents and businesses alike.

Congress, in reauthorizing the Act, should pay for its mandates. Specifically, the revised Act should:

- * require federal interagency and intra-agency coordination in regulatory and grant assistance decisions;
- * not impose more restrictive federal requirements unless the federal government provides 100 percent funding for them, particularly where local governments already have made long-term financial commitments to meet federal water quality standards;

- * revise the schedule for meeting federal standards for managing storm water flows to reflect the financial ability available at the federal, state and local levels to deal with this problem.

Implementation of the Federal and State Endangered Species Acts in the San Diego Region.

Southern California and the San Diego region have gained the reputation as the area of the United States with the most endangered or threatened wildlife species. There are currently over 100 species known to live in this area that are on either the federal or state's threatened list. As a result of this and other factors, the San Diego region has become a laboratory for testing ways to reconcile development with habitat preservation.

Development interests, in their frustration with the Federal Act, have attempted unsuccessfully to persuade Congress to change the law. Besides being difficult to do, amending the Act wouldn't solve the problem perceived by builders, which is the administration of the law.

The objective for everyone- property owners, developers and environmentalists, as well as federal, state and local governments- should be more predictable, understandable administration of the Endangered Species Act. And, the San Diego region and the state of California are in a position to identify and recommend procedural improvements to the federal government.

In the San Diego region, local government's response to the endangered species problem has been to prepare increasingly complex and comprehensive habitat conservation plans. Today, every city and the county are involved in at least one habitat planning project. Other areas of southern California are doing the same thing.

Also, the state is attempting to gain some control of local habitat plans as a response to pressure from builders worried about the direction these local plans will take.

All parties - local and state government, and development and environmental interests- have enough experience with the endangered species administrative process to recommend improvements to it. Furthermore, the federal government now has enough time and money invested in the habitat planning process to listen to recommendations for improvement.

Until now, local governments, environmental groups and developers have focused, for obvious reasons, on the administrative decisions affecting this region rather than on the administrative process that produced those decisions.

Recommendations to make the Act's administrative process more consistent and predictable should be an integral part of the ongoing conservation plans.

Local agencies should take advantage of the Department of the Interior's investment and participation in the habitat conservation plans to ensure that change is a two-way street. Interior's administration of the Endangered Species Act should recognize and be based on local plans. If local interests have to adapt to new ways of handling habitat preservation, the federal government should, too.

Implementation of the Federal and State Clean Air Acts.

The transportation-related provisions of the federal and state air quality laws are based on the premise that motor vehicle manufacturers should bear only part of the responsibility for reducing transportation-caused air pollution. The auto manufacturers and related industries worked hard to convince Congress that requiring motor vehicles to run cleaner would be bad for business and that additional reductions in transportation-caused emissions should come from people driving less.

Businesses already being regulated because of their industrial processes (known as "stationary sources" in the jargon of air pollution), supported the notion that drivers should share more of the air pollution cleanup burden.

For businesses in urban areas, the results of this campaign were ironic. The centerpiece of the transportation provisions of both the Federal and the California "clean air" Acts is proposed additional regulation of business- to make their employees rideshare or otherwise drive less in going to and from work.

The state's air pollution agency, the California Air Resources Board, recently acted to mandate the introduction of "ultra-low emission" vehicles into California over the next several years. Other populous states appear to be following suit. If this trend continues, the auto manufacturers will be obliged to build cleaner running cars and trucks. This is, of course, the common sense solution to the problem over the long term.

But it will be several years before cleaner autos enter the region's motor vehicle fleet in sufficient numbers to reduce transportation-caused air pollution. In the meantime, we need shorter term actions that also make sense.

One such action should be remedial cleanup of the 10-15% of the existing fleet, generally older cars and trucks, that cause up to half of the vehicular pollution problem. Retrofitting or replacing these autos would be a cost-effective way of reducing transportation emissions. Likewise, older diesel buses should be replaced as soon as possible with currently available cleaner-running models. Replacing this region's older buses was found by SANDAG to be the single most cost-effective transit tactic for helping to reduce transportation-caused air pollution.

As a matter of fact, enough is now known about the cost-effectiveness of so-called "transportation control measures" (ridesharing, transit, etc.) to compare them with the cost-effectiveness of building cleaner motor vehicles. Although not proposed here, such a comparison would probably reveal that it is more cost-effective to produce cleaner running cars and trucks.

Despite the move toward low-emission vehicles, drivers and businesses still face statutory requirements to show progress in reducing single occupant driving trips. The dates for compliance are well in advance of the time cleaner running autos would be generally available.

The trip reduction program requirements and compliance dates in the California Act should be consistent with the Federal Act, especially because the Federal Act has sanctions and the State Act does not.

For those working on trip reduction programs in California, the focus has shifted to compliance with the Federal Act rather than the State Act as the federal compliance dates draw closer. There is no valid, substantive reason for the trip reduction provisions of the two Acts to differ.

The state prescribes a methodology for calculating the cost-effectiveness of prospective transportation control measures. However, it also prescribes a list of transportation control measures that must be enacted, depending upon the severity of local air pollution, regardless of cost effectiveness. The state's requirements should recognize cost-effectiveness as a determining factor in selecting transportation control measures. The requirements should also emphasize results rather than specific tactics. Local areas should have the flexibility to enact the transportation measures that work best for them.

State Regulation of Siting Solid Waste Facilities

Solid waste collection and disposal is big business in the San Diego region. Annually, about 3.5 million tons of trash are deposited in the region's landfills. Much of this total is generated by the region's businesses. Adequate disposal capacity, available at a reasonable price, is a basic community service, whether provided by the public or the private sector.

Siting solid waste disposal facilities is complicated and usually takes at least a few years. However, some aspects of the regulatory process could be improved.

For example, the state's permitting process for solid waste facilities should be changed. California's Environmental Protection Agency should be given the responsibility to issue one permit which would cover requirements of the state's air, water and waste boards, plus any other requirements as well.

The current procedure requires the sponsoring agency to obtain a permit from each separate board, plus certification by the Integrated Waste Management Board. This "quadruple jeopardy" is complicated further by multiple boundaries for the various regional boards.

In addition, following certification, local enforcement agencies should be responsible for regulation of the site with the state acting only as an appeals board. Permit requirements should be modified to account for the varying sizes and types of facilities. Small projects should not necessarily be subject to requirements that might be applicable to large sites.

Siting of a Low-Level Radioactive Waste Disposal Facility

Hospitals, clinics, and bio-tech companies generate low-level radioactive materials as part of their daily operations. These businesses need convenient or at least reasonable access to a waste disposal site. Without such a site, companies will be forced to use multiple sites, or in some cases, costly on-site storage. More disposal sites will probably mean more disposal and regulatory problems.

Also, if California is unable or unwilling to permit a site, bio-tech companies will find it more difficult to expand these kinds of operations in the state and the region. Therefore, local governments, educational institutions, and businesses should recommend that California authorize a site as soon as possible.

3. Help Make Housing More Affordable by Increasing Incomes and Lowering Costs

Discussion

Affordable housing is a fundamental determinant of a family's quality of life. And this region has a shortage of affordable housing. Even with the recent declines in housing values, most people still cannot afford to buy a house in the region. For example, in April 1993, a median-priced detached home in San Diego costs \$178,000. With a \$17,800 down payment, this price would require an income of \$66,000 per year, fifty percent more than HUD's 1993 estimated regional median income of approximately \$44,000. Furthermore, the maximum "affordable" home price a household with an income of \$44,000 can afford is about \$119,000. Not surprisingly, the proportion of the region's households living in owner occupied units fell between 1980 and 1990. Homeowners now make up about 54% of the total. The San Diego region currently ranks fourth lowest in this measure of economic health among 80 U. S. metropolitan areas. Home ownership could continue to decline and fall below 50% of the total occupied residences during the next 15 years.

The high cost of housing also has economic consequences. It affects business location decisions and wage rates. SANDAG reviewed several surveys of business location decision makers as part of the research conducted for this Economic Prosperity Strategy. The surveys revealed that "quality of life" factors are important considerations in selecting sites for new or expanded businesses. In two of the national surveys, for example, housing affordability was ranked as the second most important quality of life criterion. In other words business people understand that the well-being of their enterprises is directly related to other aspects of the local economy.

The region must do more than merely coexist with or complain about high housing costs, and local governments should not confine the issue to state-required general plan housing elements. The business surveys suggest that housing affordability is an integral part of the region's economy. This is an important point: We should define housing affordability as an economic problem- rather than as simply a "housing" problem or a "land use" problem.

This strategy for economic prosperity focuses on increasing family income, thus giving the region's residents more home purchasing power. But we should lower housing costs as well.

Housing costs are determined by many factors. Some of these factors, such as materials and financing costs, cannot be controlled entirely through local action. Other factors can be controlled or influenced locally. These include land prices, the types of housing built, and fees and regulations.

Land Prices

Twenty years ago, the local rule of thumb was that land costs represented 20-25% of the price of a new house. That figure is higher now. Since 1970, the cost of developed and developable land has probably risen as much as, or more than, any other item, product or service in this region (with the possible exception of health care). For many people, real estate investment and speculation are a way of life. Despite its boom and bust nature (currently, bust), they see real estate profits as the best way to augment stagnant working incomes. Houses are investments rather than shelter.

Large vacant parcels suitable for development often are sold more than once as they progress through planning, design, and construction. The prices, of course, are higher each step along the way.

Real estate speculation will continue in the region. Nevertheless, local governments can reduce its effects on home prices by improving some aspects of land use regulation.

Building Housing to Suit the Market

The region's residential builders and local governments should focus on housing needs of the communities and neighborhoods within cities to produce more affordable market rate housing. The City of San Diego successfully used this kind of focused approach to create more single

room occupancy (SRO) hotels for generally low-income residents in downtown San Diego. It should be adaptable to other communities as well.

The first step in this kind of program is to acknowledge housing supply problems where they exist in local areas: in communities and neighborhoods. Housing elements of local general plans document housing needs city or countywide. However, housing demands in neighborhoods and communities often vary significantly from the citywide market.

Next, the local area market should be analyzed to identify family status, ages of householders, incomes and other demographic and economic factors useful in determining housing affordability criteria and preferences. Such surveys will likely require substantial original research rather than reliance only on secondary data sources. The purpose of the surveys is to document for residents, builders and lenders the real housing needs of the community(s).

Third, local government, residential builders, and other interested parties should sponsor housing design exhibitions to illustrate the types of units that best meet the local market needs. This step gives local residents and prospective builders a better idea of how new housing will fit into the existing community.

Finally, local government should identify the building, zoning and other development costs that should be changed to accommodate the types of housing needed in the community. This step is important because the market analysis and the design exhibition could identify the inapplicability of some citywide development regulations to specific community or neighborhood conditions.

Fees and Regulation

Today, there is a fee for nearly every service associated with land development. These kinds of fees are intended to pay the costs of mitigating the impacts of new construction. Schools and special districts, as well as cities and the County, charge them. In some communities total fees on a new house can cost as much as \$25,000.

Development fees are imposed in California communities primarily because Proposition 13 reduced local government's access to the property tax as a means of paying for public improvements. Development fees are, in fact, companions to Prop 13: Both charge the home buyer a premium to enter or "move up" in the state's housing market.

Fees are not likely to be reduced, but fee collection can be consolidated by action of the agencies charging them. Consolidation of fee collection would be consistent with the current efforts by local agencies to "streamline" their regulatory procedures.

Developers and other businesses want "certainty" in the regulatory process. Land developers have faced a series of environmental regulations over the past ten years. Each regulation has reduced the amount of developable land available to them.

Now, habitat conservation planning (mentioned in the section on federal and state regulation) is likely to further restrict the supply of available land.

The current emphasis of the Regional Growth Management Strategy is to find a balance among:

- * the likely addition, according to the Series 8 Growth Forecast, of more than a million people to the region's population by 2015;
- * an Economic Prosperity Strategy that adds more high value-added jobs to the region's economy;
- * federal and state guidelines to preserve habitats for "endangered" or "threatened" plants and animals; and
- * local general plans that designate finite amounts of land for new or redevelopment.

Analysis thus far has shown that the region has enough- more than enough- land reserved for new employment sites through at least 2015. However, land for single and multiple family housing at urban densities will be in short supply after 2000.

The local jurisdictions should ensure, through the conservation plans and the Series 8 Regional Growth Forecasts, that their general plans designate enough developable land to accommodate the forecasted population and employment. This issue will be a key element of the Regional Growth Management Strategy.

4. Create a Regional Economic Prosperity Organization to Coordinate this Region's Economic Restructuring Process.

Discussion

Business, education and public sector leaders should promote the establishment of a regional economic prosperity organization. This organization is necessary to help coordinate this region's economic restructuring process.

The primary purpose of this organization is to be a catalyst for substantial effective action. It should be an organization dedicated to economic performance. We all know of the economic restructuring and social changes facing the San Diego region . This organization would prepare our region to meet these challenges. Social and community strength grows only through creating economic strength. A stronger economy boosts the community's ability to cope with its problems and government's capacity to respond to emerging needs.

For the San Diego region, the key will be our ability to compete successfully not merely within Southern California, the state, and the U.S at large, but also with our global competitors in Europe, the Far East and Latin America. Make no mistake: we compete with the world whether we do it well or not.

To carry out its mission, this organization must rely on working partnerships and alliances with other public and private local and regional organizations. Because our current strategies need to be more ambitious than ever, we must achieve even more coordination and integration of our work with others.

In this increasingly competitive world , a partnership among education, business and labor, facilitated by government, is becoming the standard model for success. Certainly Mexico, and the emerging nations of the Pacific Rim have made tremendous strides through this type of approach.

Government should act as a forum for communications in this proposed organization, and as a facilitator of change working within the larger competitive forces that shape the economy.

Local Organizations

Currently, there are a number of organizations that perform primarily the marketing duties required to attract or retain businesses in the region. These include the San Diego Economic Development Corporation, the South County EDC, the East County EDC, and the Chambers of Commerce.

There also are agencies focused on single economic objectives, such as the San Diego Economic Conversion Council, and the San Diego Consortium and Private Industry Council. Some cities have a specific economic development plans, such as the Cities of La Mesa, Encinitas, Chula Vista, and San Diego. There are task force/committee efforts, generally staffed by local government, such as the City of San Diego Economic Development Task Force and Vision 2003.

Also, there are a number of organizations that are advocacy groups for specific industries, such as, the High Technology Foundation, CONNECT, Biocomm, and the American Electronics Association.

Local Example

The Economic Prosperity Organization would do for the region what the Convention and Visitors Bureau (CONVIS) has done for the local visitor industry. CONVIS has been successful and instrumental in taking advantage of our mild climate to help build a nearly \$4 billion local visitor industry. More importantly, the visitor industry is constructed on a foundation of public/private investments, such as Mission Bay, Balboa Park, the San Diego Zoo and Wild Animal Park, Sea World, and the Convention Center and Cruise Ship Terminals. CONVIS has provided the leadership, creating a partnership among business, education and government that is necessary to influence the region's attitude and to get the region to commit its resources.

To match the success recorded in the visitor industry, an organization designed to do for the region what CONVIS has done for the visitor industry may be necessary. This organization would work to ensure that adequate investments in the human and physical infrastructure are made to encourage the retention and expansion of local high value added businesses.

For this internally focused economic prosperity strategy to be successful, it is necessary that the region have an environment that spawns new business enterprises, as well as a foundation of existing and emerging growth companies that are in industries that are expected to be growth leaders in the near future. In this area the San Diego region is well endowed, as we are with a climate that is a natural building block for the visitor industry. We have an established base of businesses that are defined as high technology industries, producing high-value added goods and services, such as engines and turbines, office and computing machinery, communication equipment, aircraft, and scientific instruments. We have an expanding base of companies in emerging growth industries, such as drugs, medicines, medical and precision measurement instruments (bio-tech, bio-med), fiber optics, and microelectronics. And our collection of universities and research and development institutions provide an environment that is conducive to the creation of new enterprises.

Examples from Other Areas

Cleveland, Ohio - Cleveland Tomorrow is a committee of more than 50 chief executive officers from the region's largest companies. The organization was formed in 1982 to give a unified voice to Cleveland's major businesses and to help coordinate the private sectors response to the structural economic transformation of the region that already was beginning to take place.

Cleveland Tomorrow provides a forum for its members to review major economic development initiatives and to seek support for the most promising programs. They are committed to focused initiatives that improve the region's long-term economic vitality. They pursue an informed agenda through our membership and our many important community partners. The board meets six times a year, members only, no substitutes and is the decision making body.

Philadelphia, Pennsylvania - The Partnership For The Future identifies and prioritizes investments which can shape the region's future. These projects, agreed upon by leaders with the cooperation and support of governments, businesses and universities, require continued cooperation and governmental support at many levels.

The projects selected for this Partnership pass three tests. First, the investment was identified as contributing to the economic growth and vitality of the region. Second, the project, due to its scope and location, must have a regional impact. And third, the project is supported by the Partnership.

5. Monitor and report annually the progress on achieving the recommended actions and policy objectives of the Regional Economic Prosperity Strategy.

Discussion

On a periodic basis, SANDAG should update the reports "Evaluation of Economic Prosperity in the San Diego Region", and the "Regional Economic Prosperity Strategy". SANDAG should monitor the region's progress in achieving the strategy's goals and objectives. SANDAG should identify the agencies and organizations that are most responsible or have the greatest influence on implementing the Strategy's policy objectives and recommended actions.

As with the other Regional Growth Management factors, the objectives for economic prosperity are measurable, so we can monitor how well we're doing in meeting them each year. As part of the monitoring process, a Consistency/Monitoring Checklist will be used by local jurisdictions and regional single-purpose agencies to determine whether their policies, plans and ordinances are consistent with the standards and objectives of each factor, that together make up the Regional Growth Management Strategy. Some components of the Economic Prosperity factor will be added to the Consistency/Monitoring Checklist.

Presented below are additional areas that may require monitoring to help achieve the Strategy's objectives.

Establish better coordination among the many education, training, marketing, and development goals, and the regional strategy.

The need for better coordination is provided by the contrast between the San Diego Consortium & Private Industry Council's 1992 - 1997 Occupational Outlook and the region's desire to use it as a marketing tool to compliment and support the many economic development organizations and agencies.

The San Diego Consortium's Occupational Outlook is based on the State Employment Development Department's surveys reflecting growth in specific occupations, which presently show most job growth occurring in service and trade industries (relatively low paying positions). This information is then rightfully used as a plan for establishing training courses. Thus, we are training people for relatively low paying service or retail trade sector job opportunities.

We need to do better. We need continued efforts by the Cities, economic development organizations, schools and colleges to examine and create ways to integrate the role of secondary and higher education with local business labor requirements, using the resources and experience of the Consortium to establish long term goals.

An example of a program that is becoming more coordinated is the way the region continues to examine and create ways to integrate the role of secondary and higher education with local business labor requirements. This is a way to ease the school-to-work transition, as recommended by the National Center on Education and the Economy in their June, 1990 report, "America's Choice: high skills or low wages!" The desire to learn and become more educated and better trained is driven, in part, by an understanding of the rewards. The availability of high value added jobs may help provide the incentive for individuals to adequately prepare themselves to participate in the labor force.

Throughout the 1990s and beyond, the economic status of our labor force's new entrants, who are expected to be primarily from our minority communities, may be determined by the quality of the job opportunities available and the quality of their preparedness.

Education, combined with training, is half of this strategy's key requirements (the other half is physical infrastructure) for our future competitiveness, productivity and prosperity. But we must first create the types of job opportunities that are compatible with the skills of our better-prepared future work force. Creating the kind of educational system that can prepare young people for an increasingly competitive global economy will be costly - but our failure to upgrade education would be even more expensive, in both human and economic terms. Locally, we have agencies,

such as the Private Industry Council, the Community Colleges and many others that can help establish a closer link among job creation efforts, job training programs, and educational programs.

Develop a regional economic development evaluation system.

We should evaluate the economic impacts of local industry sectors and individual businesses based on their net income contribution per employee (household). This method would focus attention on the income per employee derived from proposed business developments or expansions, making the welfare of the region's residents a primary consideration in the public approval process.

A community's strength is derived from the income and wealth of its residents. This process would show that it is a mistake to allow employment to continue to decline in industries that provide high value added job opportunities. A new system of evaluating industry and company impacts, that recognizes regional growth management quality of life concerns, is required to fully appreciate why high value added jobs deserve special attention. The system should evaluate the net impact to the region's economy and be based on the results of a company or industry responding to a change in demand for its products or services, not the number of jobs generated.

Set public facility and service standards at a level the region's residents can afford.

Local government should more closely associate the cost of public facilities and services with the ability of the region to afford these standards. Although, we recognize it would be more difficult to influence the cost of standards that are not imposed locally.

One of the findings made in the Economic Prosperity report was that growth in the region's standard of living, measured by the rate of change in real per capita income, has stagnated over the past 10 years, and we are continuing to lose ground to the national average. If this trend continues, as SANDAG's preliminary Series 8 Regional Trends Growth Forecast suggests, we

will be compromising our future economic prosperity and quality of life by accepting a lower standard of living. For example, the ability of this region to achieve some of its local "quality of life standards," such as two police per thousand people, paramedic and fire department response time, traffic congestion, street maintenance schedules, air and water quality, is dependent on our ability to afford the standards. Not being able to afford the standards may, at some point, mean compromising on the levels we have set.

Thus, as this strategy points out, the issue is not how to rekindle the rapid growth the San Diego region has seen in the recent past, but whether we can maintain a level of economic vitality that will allow us to keep what we have, improve our public facilities and communities, and offer opportunities to the generation now growing up here. The region can maintain its quality of life and enjoy a rising standard of living by influencing the quality of economic growth.

SECTION 4
SERIES 8 REGIONWIDE
ECONOMIC PROSPERITY FORECAST

SECTION 4

SERIES 8 REGIONAL ECONOMIC PROSPERITY GROWTH FORECAST

INTRODUCTION

The Series 8 Regional Growth Forecast is the foundation of the Regional Growth Management Strategy. In addition, the Growth Forecast are used by SANDAG, its member agencies, and many other public and private sector entities in all kinds of plans and studies that require population, housing, employment and income data.

In December 1992, SANDAG produced a preliminary Series 8 Regionwide Trends Growth Forecast. The Trends Forecast projected a poorer economic outlook for the region than SANDAG's previous forecasts -- less overall job creation, a declining manufacturing base, and a lower standard of living for more of our residents.

The Trends forecast does not imply that the region should develop in this manner or that nothing can be done to affect this outcome. The Series 8 Trends Forecast shows what the region's economy is likely to look like in 25 years if current trends, plans and policies that affect local economic conditions remain unchanged -- that is, unless the region acts to correct these problems.

Fortunately, many people, agencies and organizations are already organizing and working to improve the region's economy. SANDAG's efforts are organized under the Economic Prosperity factor of the Regional Growth Management Strategy. The Economic Prosperity factor contains the Quality of Life Standards and Objectives for the local economy, and the Recommended Actions necessary to achieve them. The Recommended actions were developed in the Regional

Economic Prosperity Strategy, by SANDAG's Regional Economic Development Strategy Advisory Committee.

In addition, the Regional Growth Management Strategy is supposed to identify solutions to problems resulting from the region's growth. As stated above, the Trends Forecast has revealed the region's most important economic problems. Solutions to these problems are recommended in the Regional Economic Prosperity Strategy. The results of carrying out the Economic Prosperity Strategy's recommendations are represented in the Series 8 Regionwide Economic Prosperity Growth Forecasts. The Trends and Economic Prosperity Forecasts are discussed in greater detail below.

ALTERNATIVE FORECASTS

SANDAG staff has produced two alternative demographic and economic forecasts for the San Diego region. The purpose of producing two forecasts is to simulate the effects of a strategy designed to overcome the structural changes and deficiencies affecting the local economy, (reduction in Department of Defense expenditures and growing importance of international trade) identified in the Trends Forecast.

The primary difference between these two forecasts are public and private sector investments/actions that may be taken to affect the quality of the regions projected growth.

Under the Trends Forecasts no new public or private sector investment/actions are taken. Under the Economic Prosperity Forecast a number of public and private sector investments and actions occur.

These investments and actions are designed to provide the fundamental infrastructure required by our high value added industries. These are industries that require an educated, trained and skilled

labor force, and, in turn, because of these requirements pay relatively higher wages and salaries to their employees.

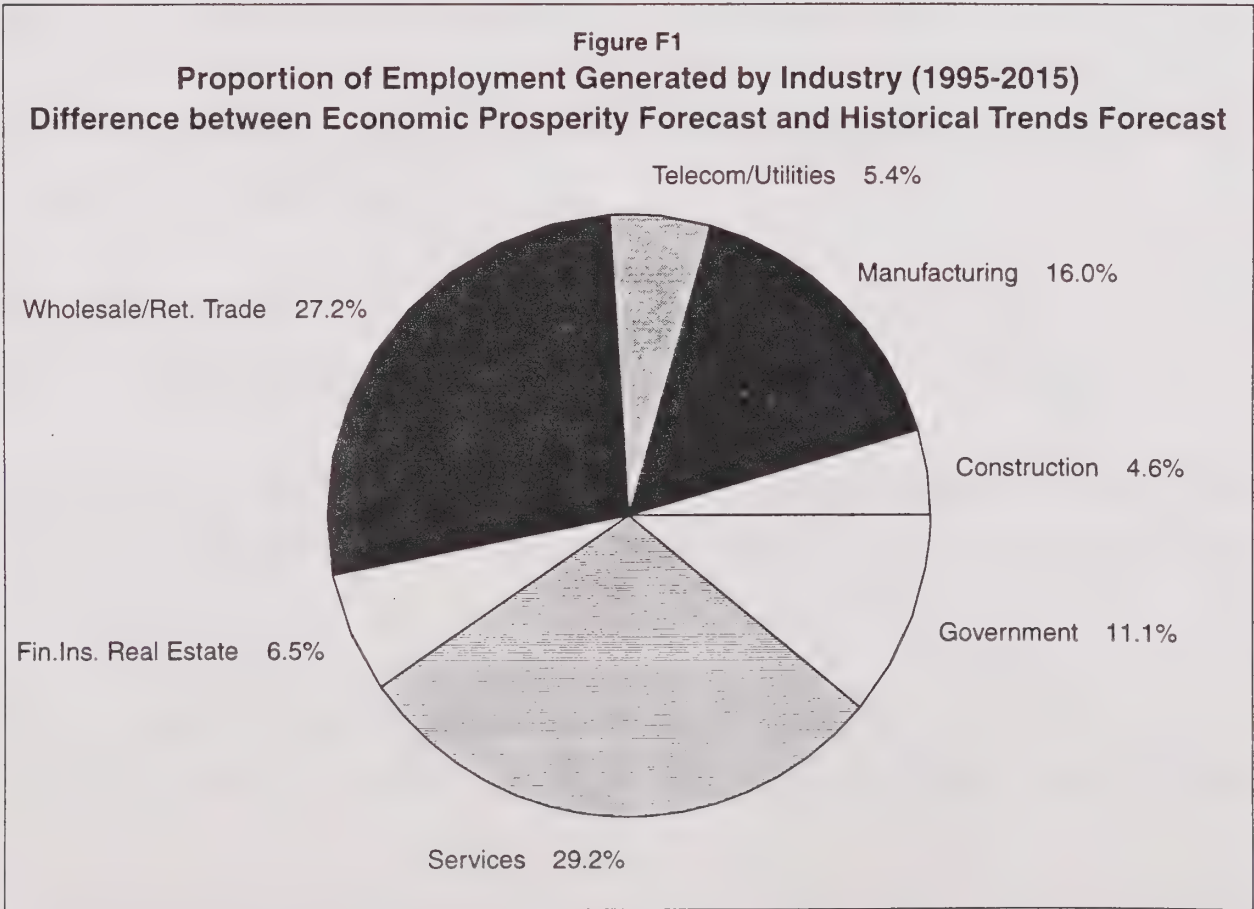
The infrastructure items include a more secure water supply, access to hazardous and low radiation waste storage sites, adequate sewage and solid waste capacity, and better direct access to and communications with the growing international trade markets.

These infrastructure investments and actions combined with a commitment of providing better education and training would form the basis of the region's new economic prosperity strategy. These investments, actions and commitments would provide an incentive for our local "home grown" businesses to make a long term commitment to the San Diego region.

MAJOR DIFFERENCES BETWEEN FORECASTS

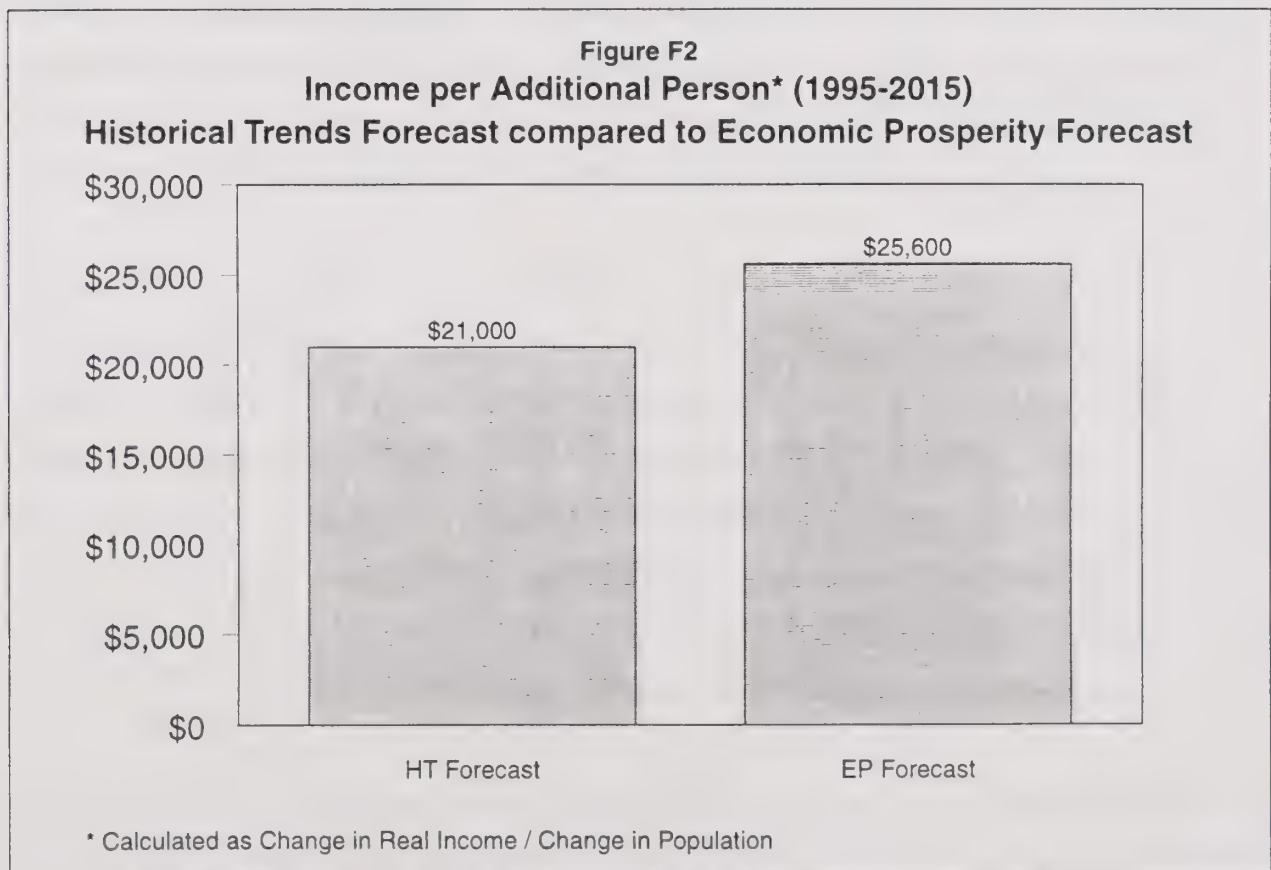
Employment Differences

The most important differences between the Trends and the Economic Prosperity Forecasts are those changes affecting the economy. The Prosperity Forecast shows 59,000 more jobs than the Trends Forecast. The make up of these additional jobs is important. The manufacturing sector accounts for 16 percent or nearly 9,000 of the 59,000 additional jobs. The remaining 84 percent of the higher job growth is spread out among the other industries, as shown in Figure F1 below. A significant proportion of the additional job growth is concentrated in the industries with high value added job opportunities, achieving one of the primary objectives of the economic prosperity strategy. The quality of the additional economic growth has been affected by the economic prosperity strategy.



Income Differences

The quality of the economic growth generated by the infrastructure investments and public policy actions also affects the local standard of living, as measured by real per capita income. The additional economic growth generated by the economic prosperity strategy results in an additional \$6.4 billion in personal income (measured in 1992 dollars). During the forecast time period, real per capita income under the Prosperity Forecast averages 22 percent higher than the Trends Forecast alternative (the effect of adding \$6.4 billion to personal income and only 69,000 additional people). This difference in real per capita income, \$25,600 for the Prosperity Forecast and \$21,000 for the Trends Forecast, (see Figure F2) is large enough to offset the overall decline in real per capita income of 6.3 percent projected under the Trends Forecast (nearly a \$5 billion aggregate decline in personal income). Thus, the economic prosperity strategy creates an environment that results in a rising standard of living and purchasing power for the region's residents.



Regionwide Economic Prosperity Forecast

The economic prosperity forecast projects a better, more improved economic outlook than SANDAG's previous forecast, which was based on the continuation of historical and recent trends. The economic prosperity forecast shows more jobs being created, an increasing manufacturing or high value-added job base, and a rising standard of living.

Demographic Projections - The Series 8 regionwide economic prosperity forecast shows a regional population of 3.8 million in 2015, a gain of nearly 1.3 million persons over the 2.5 million persons counted in the 1990 Census. This represents an average annual increase of 51,800 persons and a growth of 51 percent between 1990 and 2015.

This growth is less than what occurred during the last decade when the region's population grew on average by 60,000 persons per year. The reduced population growth in the future occurs because of slower employment growth (described in the next section of the report), which lowers the level of migration into the region. In addition, growth from natural increase (births minus deaths) slows as the baby boom generation moves out of prime fertility age groups and fertility rates decline from their 1990 levels (see forecast assumption section). Nevertheless, natural increase will account for nearly 53 percent of the region's future population growth -- as compared to 35 percent in the previous decade.

Also, Series 8 forecasts the region's population by four ethnic groups. During the 1980s, the fastest growing ethnic groups were the Hispanic and Asian & Other populations. Series 8 shows a continuation of these trends. Between 1990 and 2015, the Hispanic population shows the greatest rate of change (135 percent), followed by the Asian & Other (111 percent), and Black (53 percent) populations. The non-Hispanic White population increases by 17 percent, for an overall average population increase of all categories of 51 percent. By 2015, "minority" populations comprise 49 percent of the region's population, up from 35 percent in 1990.

Economic Projections - The economic prosperity forecast shows an increase of 350,000 jobs from 1990-2015, or an average of 14,000 per year. During the 1980's, the region generated an average of

36,000 jobs per year. However, current estimates and the forecast show that the region will have lost 67,000 wage and salary jobs between 1990 and 1993. The number of jobs lost and the duration of the current recession is the worst the region has experienced since the end of World War II.

One of the quality of life objectives of the Economic Prosperity factor is to create a greater proportion of high value-added job opportunities (job opportunities which require relatively higher education, training and skills and which pay relatively higher wages) than current trends are expected to produce. The manufacturing sector, for example, contains many of the region's high value-added jobs. This forecast adds three times more manufacturing jobs than current trends are expected to create between 1990 and 2015. More importantly, the forecasts show that once the infrastructure investments identified in the economic prosperity strategy have been made, employment growth in the manufacturing sector begins immediately. Manufacturing employment rises by 26 percent between 1995 and 2015. Despite this significant difference, manufacturing's share of the region's employment is expected to fall from 12 percent in 1990 to 10 percent in 2015.

This forecast of manufacturing employment is not only a function of the current local recession and Department of Defense expenditure cutbacks, it also is a result of trends in U.S. manufacturing employment. A recent forecast released by Data Resources Incorporated shows U.S. manufacturing employment declining by 3.2 million jobs between 1991 and 2016.

A second quality of life objective of the economic prosperity factor is to ensure a rising standard of living for the region's residents. The current recession has caused real per capita income to decline by 8 percent between 1990 and 1993. Under the trends forecast, this decline is never made up over the remaining years of the forecast. The economic prosperity forecast, with its investments in human and physical infrastructure, creates a sufficient number of high paying job opportunities to overcome the decline in the region's real per capita income, stabilizing the region's standard of living. Real per capita income is 22 percent higher in the economic prosperity forecast than the trends forecast between 1995 and 2015.

SELECTED DEMOGRAPHIC AND ECONOMIC INDICATORS

SERIES 8 REGIONWIDE GROWTH FORECAST COMPARISON, SAN DIEGO REGION 1980-2015

	Historical		Forecast 2015		Change 1990 - 2015	
	1980	1990	Historical Trends	Economic Prosperity	Historical Trends	Economic Prosperity
DEMOGRAPHICS						
Total Population (000)	1,837	2,521	3,747	3,816	1,226	1,295
Hispanic	277	516	1,196	1,216	680	700
Non Hispanic White	1,383	1,648	1,903	1,933	255	285
Non Hispanic Black	103	151	228	232	77	81
Non Hispanic Asian & Other	110	206	420	435	214	229
Uniformed Military (000)	123	111	105	105	-6	-6
HOUSING						
Housing Stock (000)	722	951	1,414	1,438	463	487
Single Family	439	557	809	821	252	264
Multiple Family	243	347	531	542	184	195
Mobile Homes	40	46	74	75	28	29
Occupied Units (000)	674	891	1,361	1,385	470	494
Household Size	2.62	2.7	2.63	2.63	-0.07	-0.07
LABOR FORCE AND EMPLOYMENT						
Total Labor Force (000)	818	1,206	1,500	1,534	294	328
Civilian Employment (000)	764	1,122	1,413	1,472	291	350
Agriculture & Mining	14	12	10	10	-2	-2
Construction	36	62	69	71	7	9
Manufacturing	108	137	141	149	4	12
Trans, Comm, Utils	29	37	48	51	11	14
Trade	149	238	321	335	83	97
Finance, Ins, Real Estate	39	68	90	94	22	26
Services	148	276	377	392	101	116
Government	141	177	212	218	35	41
Self Employed and Domestic	100	116	145	152	29	36
REAL PER CAPITA INCOME (92\$)						
Personal Income (\$000)	19.7	20.8	19.5	20.8	-1.3	0
Disposable Income (\$000)	16.8	17.8	16.6	17.8	-1.2	0

SANDAG Updated Historical Trends, May 1993, SANDAG Economic Prosperity Simulation, July 1993, Source: San Diego Association of Governments, August

Forecast Assumptions

Series 8 provides regionwide demographic and economic forecasts from 1990 through the year 2015. These forecasts are generated using the Demographic and Economic Forecasting Model (DEFM) which combines a population-employment forecasting model with an economic impact analysis system. DEFM consists of six sectors which are directly or indirectly linked through a series of econometric equations. The six sectors are population, employment, income, construction, prices and public finance. The population sector, for example, determines the next year's population by adding the current year's surviving population to birth and migration figures.

All forecasts require a set of underlying assumptions. This section provides information about the major assumptions behind the final Series 8 regionwide forecast. The DEFM Technical Committee helped with the development of these assumptions. This committee includes persons with expertise in demography, economics, housing, finance and forecasting.

NATURAL INCREASE

Natural increase (births minus deaths) is one component of change in the region's population. The other component is net migration which is the difference between migrants moving into the region and those moving out. During the 1980s, 35 percent of the region's growth was due to natural increase. Birth and death rates stratified by age, sex and ethnic group determine future levels of natural increase in the region.

Birth Rates

A measure known as the total fertility rate (TFR) illustrates the birth rate assumptions for Series 8. The TFR represents the average number of children a woman will have when she completes her childbearing. Table 1 shows the TFR by ethnic group for 1980, 1990 and 2015.

Fertility rates increased during the 1980s, reversing a twenty-year trend in which the TFR declined 53 percent from 1960 to 1980. The TFR also increased in both California and the nation; although, the U.S. increase was less than either the San Diego region or the state. An increase in the TFR occurred in all ethnic groups except Asians and Others. The decrease in Asian and Other fertility is likely a result of the changing composition of Asian immigrants. Many immigrants in the late 1970s and early 1980s such as the Hmong and Vietnamese have much higher fertility compared with Filipinos. Filipinos were the most predominant group of Asian and Other immigrants during the 1980s.

Table 2

TOTAL FERTILITY RATE BY ETHNIC GROUP
SAN DIEGO REGION 1980, 1990 AND 2015

<u>Ethnic Group</u>	<u>1980</u>	<u>1990</u>	<u>2015</u>
Hispanic	3.1	3.6	2.8
Non-Hispanic White	1.5	1.9	1.8
Black	2.1	2.7	2.3
Asian and Others	2.6	2.3	2.1
All Ethnic Groups	1.8	2.4	2.1

The TFR in each ethnic group declines over the next 25 years, with the overall TFR reaching replacement level fertility by the year 2015. Hispanic and Black populations show the largest declines which narrow the ethnic group differences in the TFR between 1990 and 2015. Trends in the region's non-Hispanic White, Black and Asian and Other fertility are based on the most recent middle-series projections of U.S. fertility developed by the Census Bureau. The decline in Hispanic fertility assumes that family planning efforts in Mexico are successful, especially in

rural areas. Many forecasters of Mexican fertility also use this assumption. Trends in Mexican fertility impact the region's Hispanic fertility level because most Hispanic immigrants come from Mexico.

Death Rates

Life expectancy at birth (LEXB) illustrates the death rate assumptions for Series 8. LEXB represents the average number of years a person lives after their birth. Table 2 shows LEXB by sex and ethnic group for 1980, 1990 and 2015.

Male LEXB rose by 1.9 years during the 1980s, 0.6 of a year more than the increase in female LEXB. Similar increases occurred in every ethnic group, except Asian and Others whose LEXB declined between 1980 and 1990. While the gap between male and female LEXB narrowed, females born in 1990 live on average six years longer than males. The greatest difference between male and female LEXB in 1990 is in the Hispanic population (8.6 years). The greatest ethnic group and sex differential in 1990 is between Asian and Other women who typically live almost 16 years longer than black males.

Table 3
LIFE EXPECTANCY AT BIRTH BY SEX AND ETHNIC GROUP
SAN DIEGO REGION 1980, 1990 AND 2015

<u>Ethnic Group</u>	Male			Female		
	<u>1980</u>	<u>1990</u>	<u>2015</u>	<u>1980</u>	<u>1990</u>	<u>2015</u>
Hispanic	71.1	73.0	75.3	80.3	81.6	82.7
Non-Hispanic White	71.4	73.2	75.3	78.0	79.1	81.3
Black	66.5	68.2	72.0	73.8	75.1	78.7
Asian and Others	79.0	77.3	77.1	85.8	84.0	83.4
All Ethnic Groups	71.4	73.3	75.5	78.0	79.3	81.7

Hispanic and non-Hispanic White LEXB increases over the next 25 years, but at a slower rate than during the past decade. Blacks have the largest increase in LEXB which narrows the differences between Blacks and the other ethnic groups by 2015. The sex differential in LEXB is almost constant over the projection period, except the Hispanic population where the gap between males and females narrows to that of the other ethnic groups. These trends follow the most recent middle-series projections of U.S. life expectancy developed by the Census Bureau.

Life expectancy for Asian and Others declines over the forecast period, but at a much slower pace than the decline between 1980 and 1990. In 2015, this population still has the highest life expectancy of any ethnic group. Forecasting mortality for Asian and Others is more difficult because the LEXB is based on a small number of deaths. Deaths to Asian and Others numbered only 500 in 1990, well below deaths in the other ethnic groups. We have less confidence in the trend for this ethnic group. The assumption, which merges Asian and Others LEXB toward that of the other ethnic groups, reflects the uncertainty about the mortality levels in the Asian and Other population.

NET MIGRATION (In Migrants minus Out Migrants)

DEFM forecasts three categories of net migrants: (1) retirement migrants, (2) migrants under the age of 65 that come to the region primarily for economic reasons (employment migration), and (3) movement of uniformed military and their dependents. Net migration for each category is forecast by age and sex and also by ethnic group.

Retirement Migration

Net retirement migration depends on a migration rate for persons 65 years and older and the U.S. population 65 years and older not residing in the San Diego region. The region's retirement migration rate is based on changes in Medicare enrollment and deaths to elderly persons observed during the 1980s. This rate is adjusted using the relationship between local and U.S.

housing prices. U.S. population and housing price forecasts are exogenous to DEFM. They come from the U.S. Census Bureau and a nationally recognized economic consulting firm.

Employment Migration

Forecasts of employment migration are based on the interaction between economic forces and population growth in the San Diego region. This migration stream includes migrants from other states and counties in California and also legal and undocumented migrants from countries outside the United States. Employment migration is directly related to the region's employment growth and inversely related to its unemployment rate. That is, higher levels of employment change and lower unemployment rates result in an increase of employment migration. Forecasts of local employment and unemployment are derived from DEFM's employment sector. They are used in an equation that determines future employment migration. The statistical parameters of the net migration equation are estimated from historical data beginning in 1950.

Military Migration

Current estimates of uniformed military (105,000) and their dependents (93,100) are held constant throughout the forecast. Historically, the region's uniformed military and dependent populations experienced cyclical fluctuations which are difficult to anticipate. Over the long-run increases in the military population tend to offset its decreases, which is one reason for this assumption. Base closures, potential changes in military personnel, and relocation of naval vessels could affect the future size of the region's military population and their dependents. At this time, we do not know either the magnitude or direction of these changes. Another reason is that the military, for national security reasons, is not willing to reveal any information about the future size or composition of the region's military population.

Ethnic, Age and Sex Composition of the Net Migrants

The distribution of the net migrants into ethnic and sex groups is based on the factors shown in Table 3.

Table 4
EMPLOYMENT AND RETIREMENT NET MIGRATION
DISTRIBUTION FACTORS BY SEX AND ETHNIC GROUP

	Hispanic		Non-Hispanic White		Black		Asian & Other		Total
	Male	Female	Male	Female	Male	Female	Male	Female	
Employment	14.2%	12.4%	22.0%	22.6%	2.7%	4.1%	10.0%	12.0%	100%
Retirement	1.5%	2.8%	35.1%	52.3%	0.4%	1.0%	2.4%	4.5%	100%

These factors sum to 100 percent for each type of net migration and were calculated from 1980 census information (complete 1990 data were not available). For example, non-Hispanic White males comprise 22 percent of the employment migration. Retirement migration favors females of all ethnic groups and concentrates primarily in the non-Hispanic White population. Employment migration, on the other hand, is more evenly distributed across the sexes. Non-Hispanic Whites account for 45 percent of this type of migration. Net migration estimates by ethnic group during the 1980s showed a similar pattern to the 1975-80 period reflected in the census migration statistics. These factors do not change over the forecast.

The age distribution of the migrants is determined from net migration rates for each age and sex group. These rates were also calculated from 1980 census data. They do not change over the forecast.

OCCUPIED UNITS AND HOUSEHOLD SIZE

Forecasts of occupied housing units and the average number of persons per household (PPH) are based on household headship rates (HHR). HHR represent the number of persons that head a household divided by the number of all persons living in a household. DEFM uses HHR stratified by age and sex. HHR applied to forecasts of household population by age and sex yields a forecast of occupied units. Future household size is determined by dividing household population by occupied housing units.

Between 1960 and 1980 the region's household size declined from 3.41 to 2.62, a drop of 23 percent. Various demographic factors influenced this change. These included: (1) reductions in the fertility rate, (2) increases in the proportion of never married among young adults, (3) rising divorce rates, (4) aging of the baby boom generation into the young adult years, and (5) larger numbers of the elderly maintaining their own households.

During the 1980s, the region's PPH increased 2.6 percent and reached 2.69 in 1990. State Department of Finance (DOF) estimates show a continued increase in the PPH during the first years of this decade. They estimate the region's PPH for January 1993 at 2.77, an increase of 3.0 percent since 1990.

HHR dropped since 1980 reflecting the rise in PPH, with the largest declines in HHR occurring in the age group 15-34. Some possible reasons given for this drop: (1) increased fertility rate, (2) growth in Hispanic and Asian populations which have a greater tendency to live with extended families compared to other ethnic groups, and (3) the high cost of housing which keeps young adults at home with their parents and cause more unrelated people to live together.

HHR for 1990 are computed from census data. The 1990 HHR were extrapolated to the year 2015 based on the 1980-1990 trend. The continuation of the 1980-1990 trend indicates that PPH increases to 2.79 by 2000. PPH then declines to 2.63 by 2015 primarily due to the aging of the region's population.

LABOR FORCE

The future size and composition of the civilian labor force are based on age and sex specific labor force participation rates (LFPR). These rates represent the fraction of persons that are in the labor force. Detailed LFPR for the region are available from the 1990 census.

The region's LFPR to the year 2005 follow the same trends as U.S. LFPR by age and sex. The 2005 LFPR are held constant for the remaining forecast years, primarily because current U.S. forecasts of LFPR do not go beyond this point. U.S. rates for the period 1990-2005 were published by the Bureau of Labor Statistics in 1992. The key U.S. trends in LFPR are:

1. Male LFPR change slightly, with some age groups showing slight declines.
2. LFPR of men aged 55-64, which dropped 7.9 percentage points over the 1975-90 period, increase 0.2 percentage points by the year 2005.
3. Female LFPR increase, but at a much slower pace than over the past 15 years (24 percent versus 10 percent).
4. By 2005 male LFPR are 20 percent higher than female rates, down from a 32 percent difference in 1990.

EXOGENOUS FORECASTS

The region's population and economy are linked with state and national economic and demographic shifts. These linkages are explicitly represented in DEFM and remain in effect over the forecast period. For example, the region's net migration of retirees depends on the changing age composition of the United States population. National trends in manufacturing employment and in personal income are factors that help determine future change in the region's employment.

U.S. Population Projections by Age and Sex

The latest projections of the U.S. population were published by the Census Bureau in 1992. These projections extend to 2050 and include information by age, sex and race. To underscore the uncertain nature of population projections, the Bureau prepared alternative forecasts by varying assumptions about fertility, mortality and U.S. immigration and emigration. These population projections for 2015 range from 282.0 million to 338.6 million, with their middle series showing 310.4 million, 21 million higher than their previous forecast released in 1988. The middle series reflects the assumption midway between the highest and lowest assumptions for fertility, mortality and migration.

DEFM uses the middle projection series of the U.S. population by age and sex. Key U.S. trends from this series for 1990-2015 are:

1. The average annual population growth rate slows slightly from 0.9 percent in 1995 to 0.8 percent for the period 2010-2015.
2. The median age rises by 4.1 years and reaches 37.5 years by 2015.
3. The elderly population increases by 43 percent and reaches 45.9 million by 2015. Their share of the total population rises from 12.6 percent to 14.8 percent.
4. The greatest increase in the elderly population occurs in the 85+ age group. This population increases from 3.3 million to 6.2 million (88 percent).
5. Population in the age group 18-34 increases by almost 3 million to 71.5 million by 2015. However, its share of the total population drops from 26.8 percent to 23.0 percent.

6. Persons aged 45 to 64 increase by 33 million and reach 81.3 million by 2015. Their share of the total population rises from 19.0 percent to 26.2 percent.

U.S. Long-Run Economic Projections

Projections of the U.S. economy were released by Data Resources Incorporated/McGraw-Hill (DRI) in Spring, 1993. Their Review of the U.S. Economy: Long Range Focus provides a 25-year projection extending from 1991 to 2016. DEFM uses the TREND projection, one of the four projection series developed by DRI. The smooth-growth characteristics of the TREND projection make it useful for tasks, such as capital facilities planning, that are not greatly affected by short-term cyclical fluctuations. Key trends from DRI's TREND projection for the U.S. are:

1. The economy's growth rate will slow. Growth in real GNP averages 2.1 percent between 1992 and 2015, compared with 2.5 percent between 1967 and 1992.
2. Inflation averages 3.2 percent annually over the next 23 years, lower than the average of 3.9 percent between 1982 and 1991, and much lower than the double digit inflation rates of the late 1970s and early 1980s.
3. The federal budget deficit improves slightly through the 1990s, narrowing to \$230 billion dollars (or 2.6% of the GNP) by 2000.
4. The percent of jobs classified as manufacturing falls from 15.5 percent in 1992 to 10.6 percent by 2015. The service sector generates 56 percent of the new jobs over the next 23 years.
5. Key manufacturing sectors important to the region's economy are expected to decline in importance nationally. In particular, Electrical Machinery is expected lose 350,000 jobs between 1992 and 2015, a decline of 23 percent.

6. The labor force participation rate rises from 65.1 percent in 1992 to 67.5 percent by 2000. It declines to 66.1 by 2015 as the population progressively moves into age groups with lower participation rates.
7. The unemployment rate averages 5.9 percent between 1992 and 2015, down from an average of 7.0 percent during the 1980s.

California Population Projections

Projections of California's population from 1990 to 2015 were released by the State Department of Finance (DOF) in April 1993. These interim projections represent a revision of the more comprehensive projections done in 1991. They show the State population reaching 45.5 million by 2015, an increase of almost 16 million over the 1990 census.

SECTION 5

MONITORING THE ECONOMY

SECTION 5

MONITORING THE ECONOMY

BACKGROUND

The primary goals of the Regional Economic Prosperity factor of the Regional Growth Management Strategy are to improve the quality of life and maintain the region's standard of living. The Strategy provides a platform for public support and cooperation, two factors which are necessary to maintain a strong and stable local economy. One way to regain and then maintain a strong and stable economy, is to make sure that the region has the ability to provide job opportunities that result in a rising standard of living for local residents. In order to insure that the region is headed in the right direction and stays on track, progress towards achieving regional goals should be evaluated on a regular basis.

We can begin to evaluate our success by developing a monitoring program which quantifies our progress towards achieving the goals outlined in the Regional Economic Prosperity Strategy. This program will allow us to track the affects of existing as well as new economic policies, compare our region with other metropolitan areas, and to determine which areas of our economy may require additional attention.

In order to achieve the desired results of the Regional Economic Prosperity Strategy, agencies and organizations are identified that may be able to assist in their implementation. This report attempts to identify those public agencies which influence the factors being monitored as well as those agencies responsible for ensuring that components of the economic prosperity strategy are met. This will give community leaders and decision makers an idea of which agencies can be called upon to help implement the recommended actions and programs which are part of the Regional Economic Prosperity Strategy.

OVERVIEW

The monitoring program is intended to track different economic indicators which compare the San Diego region to other metropolitan areas. In order to determine whether the region is succeeding in achieving the goals set forth in the Economic Prosperity factor, effects of economic policies enacted in the San Diego region are measured by comparing the Region against other similar metropolitan areas throughout the nation. In doing this, we benchmark our improvements in relative terms against other metropolitan areas. This allows the effects of local policies to be compared with other areas (which may have different policies) and allows for relative improvements (compared to other areas) to be noted. Using this type of monitoring procedures, the economic effects of the Regional Growth Management Strategy in general, and more specifically the Economic Prosperity factor of the Strategy can be quantified.

More specifically, one of the objectives of the Regional Economic Prosperity Strategy is to facilitate the production process of businesses that offer high value added job opportunities. This type of employment creates higher paying jobs that results in better job opportunities and consequently increases real per capita income, resulting in a rise in the region's standard of living.

Two other benefits of this type of job creation are; first as the aggregate income in the region rises, government revenue sources increase providing a larger base from which to fund public facilities and services, and secondly, less employment is required to respond to each \$1.0 million increase in product demand resulting in less demand for public facilities and public services and population growth.

The monitoring program looks at six areas affected by the Regional Economic Prosperity Strategy, which are designed to increase the region's standard of living and improve the quality of life.

What is being Monitored

The committee identified six objectives which will help bring economic prosperity to the region. They are:

- ♦ *Ensure a rising standard of living for the region's residents, that is equal to or above other comparable metropolitan areas.*
- ♦ *Encourage the enhancement and development of regional capital facilities (physical infrastructure) that are necessary to encourage the expansion and retention of local businesses.*
- ♦ *Ensure a more productive labor force by properly educating, training, and preparing new entrants.*
- ♦ *Encourage the expansion of locally owned businesses which create job opportunities in high-paying industries, defined as those which provide the top 50 percent of the wages in the region.*
- ♦ *Reduce the rise in the region's cost of living to a level equal to or below other comparable metropolitan regions.*
- ♦ *Maintain the cost of local government facilities and services at a level equal to or below other comparable metropolitan regions.*

Limitations of the Data

There are several major reasons which limit the type and amount of data that can be used to compare different geographic areas. The most important of the limitations are: comparable areas and data; definitional changes; comparability of data between areas; and delays in time series data availability.

Comparable Areas and Data.

From past studies, it has been determined that the best national geographic areas with which to compare the San Diego region are metropolitan areas. A procedure was developed in the "Evaluating Economic Prosperity in the San Diego Region" report to select those metropolitan areas which had characteristics similar to the San Diego region. The twenty metropolitan areas which were determined to be the most similar to the San Diego region, and when ever possible used for comparison are: Anaheim-Santa Ana, California; Atlanta, Georgia; Dallas, Texas; Denver, Colorado; Fort Lauderdale, Florida; Fort Worth, Texas; Houston, Texas; Kansas City, Missouri-Kansas; Las Vegas, Nevada; Miami-Hialeah, Florida; Norfolk-Virginia Beach, Virginia; Orlando, Florida; Phoenix, Arizona; Portland, Oregon; Riverside-San Bernardino, California; Sacramento, California; Salt Lake City-Ogden, Utah; San Jose, California; Seattle, Washington; and Tampa-St. Petersburg, Florida.

These metropolitan areas are defined according to detailed federal standards as an aggregate of one or more counties which are representations of urbanized areas. Some data is not available at the metropolitan area level and whenever possible, county data is aggregated to derive comparable metropolitan area data. However, in some cases, as with government finance data, figures are only available for counties with a population of 100,000 or more. In these cases, the largest county in the metropolitan area is compared to the San Diego region.

Definitional Changes.

Changes in definitions and data collection methodologies often result in data that is not directly comparable over time. For instance, Standard Industrial Classifications (SIC) are revised as new industries, such as, the computer industry arise. Accounting procedures and changes in collection methodologies further impair the ability to find comparable data for all metropolitan areas. In some cases, data is collected at a different geographic level, or detail now than in the past. In some cases this makes it more difficult to directly compare or separate out individual components of the data. For instance, the sources of government finance data defines a "large" county in 1985, as a county containing a population of more than 500,000. The definition of "large" was redefined as 1,000,000 or more in 1990. Therefore, when the San Diego region is compared to other large counties the comparisons use slightly different areas in 1985 than 1990.

Comparability of Data between Areas.

Data is not always comparable between areas, for instance different regions of the country use different financing methods for certain government services. Schools for instance, are financed differently in San Diego than in other areas rendering the government financing of education data uncomparable between areas.

Delays in Time Series Data Availability.

Time series data produced by the Federal government is usually 1-3 years old by the time it is available. This limits the amount of current data available for many comparative statistics. Furthermore, some data are not collected annually, in these cases, data are presented as available.

OBJECTIVE 1.

Ensure a rising standard of living for the region's residents, that is equal to or above other comparable metropolitan areas.

The first objective of the Economic Prosperity Component is to ensure a rising standard of living for the region's residents that is equal to or above other comparable Metropolitan areas. This objective can be monitored by tracking changes in real per capita income.

One of the findings made in the Economic Prosperity report¹ was that growth in the region's standard of living, measured by the rate of change in real per capita income, has stagnated over the past 10 years. Furthermore, we are continuing to lose ground compared to the state and national averages. Current data limitations preclude us from comparing the region to the twenty Metropolitan areas. However, when data for the San Diego region is compared to 23 Metropolitan Statistical Area's in California, the real per capita income growth over the last three decades in our region ranks near the bottom (22 out of the 23 MSA's) surpassing only Stockton. During the same time, population growth rates in the region ranked 6th highest in California. Preliminary analysis suggests that the region's ability to provide infrastructure and public services at the standards we have set may be compromised by population growth rates which exceed income growth rates.

A key component of the Economic Prosperity Strategy is to provide the foundation for jobs in the region which will help to increase real per capita income and at the same time minimize the population growth associated with employment growth. This would allow the region to collect more tax revenues per capita, pay for needed infrastructure projects and in turn help increase the quality of life for the region's residents.

¹ Source: Evaluating Economic Prosperity in the San Diego Region, San Diego Association of Governments, September 1992

Figure M1 shows that the population growth rate in the San Diego region grew at a rate that was fifty percent higher than that of the state and three times as fast as the nation. On the other hand the region's real per capita income grew at a rate one-half that of the state and one-third that of the nation². In order to keep track of two key goals of the strategy, namely increasing per capita income by providing high-paying job opportunities and minimizing the population growth associated with increasing employment, the monitoring program compares the region's real per capita income growth rate and population growth rate with the state and nation. Increasing the region's real per capita income while minimizing our population growth rates can be considered a measure of success.

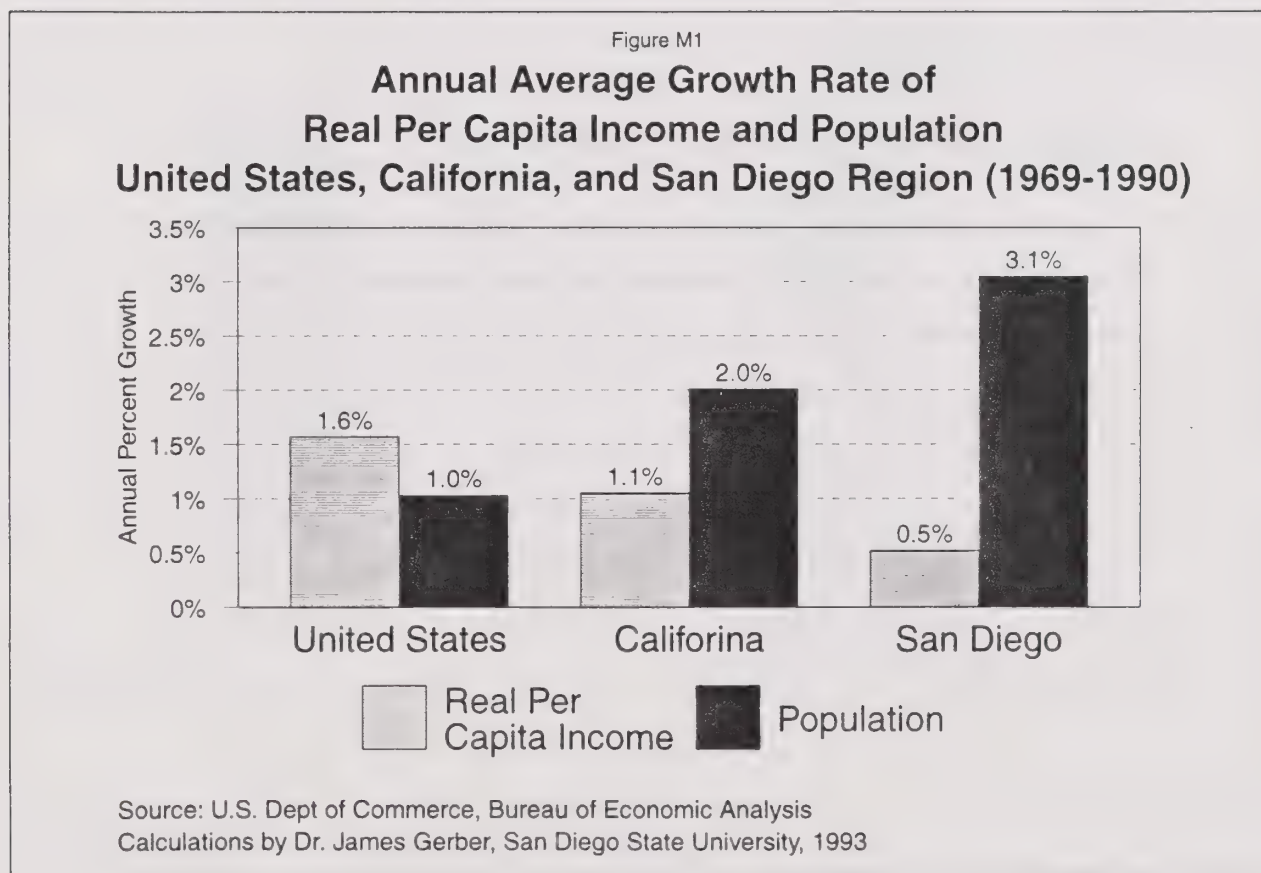
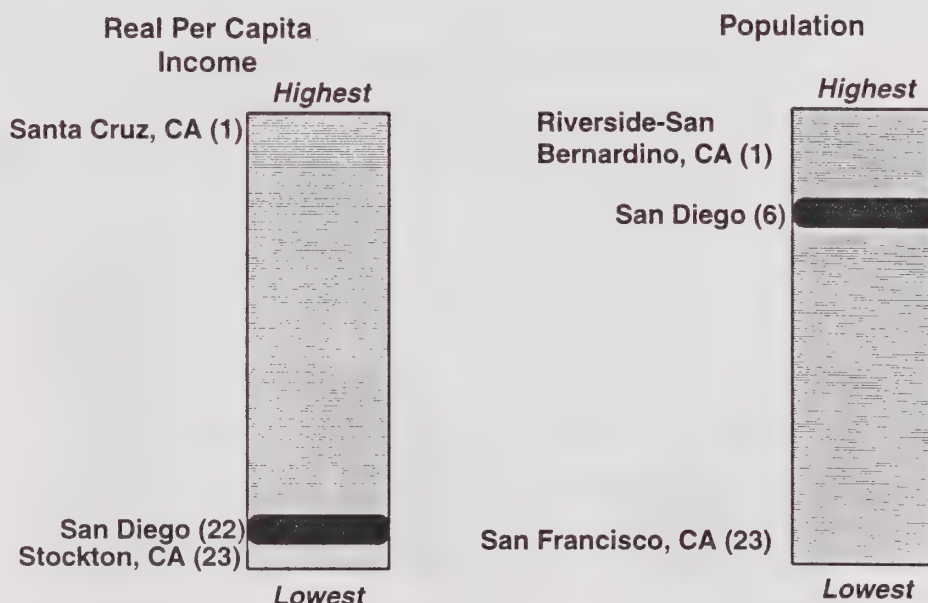


Figure M2 shows that the growth rates in real per capita income in the San Diego region ranks 22 out of 23 MSA's in California. Santa Cruz , the MSA with the highest increases in per capita income in the past 30 years, had annual average increases in real per capita income of 2.00

² This data is not intended to suggest that our population growth rate is the only factor related to our income stagnation problems., but rather that our growth in per capita income is insufficient to provide the infrastructure necessary to accommodate the regions population growth

percent. The MSA's where annual per capita income grew at a rate slower than San Diego was Stockton which posted a growth rate of 0.48 percent. In comparison, San Diego's real per capita income grew by only 0.52 percent annually. Monitoring our success in increasing our per capita income relative to other MSA's in California provides us with a way to measure the success of the Economic Prosperity Strategy.

Figure M2
Annual Average Growth Rate of Real Per Capita Income
and Population San Diego Region Compared to 23 Other
California MSA's (1969 -1990)



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis
 Calculations by Dr. James Gerber, San Diego State University, 1993

OBJECTIVE 2

Encourage the enhancement and development of regional capital facilities (physical infrastructure) that are necessary to encourage the expansion and retention of local businesses.

Investing in infrastructure is a strategy designed to provide our existing and emerging growth industries (those which create high value added job opportunities), with the fundamental factors of production that will increase their productivity. The increase in productivity will help provide the kind of environment necessary to make this region a competitive location in which businesses can expand and invest.

In previous sections, this report reviewed some of the criteria considered important in local and national site selection. The analysis found that, nationwide, criteria such as market access, public infrastructure (water, energy, transportation), and state and local taxes were considered among the most important. Locally, however, these criteria were not considered as important. The analysis suggests as an explanation for this difference, that firms which consider these criteria important, which are a majority of those nationwide, have recognized that the San Diego region is deficient, and have selected another location to site their businesses. This may also lead to businesses withdrawing from the region once these infrastructure items become important to their production process.

The proposed strategy is designed to provide the fundamental infrastructure required by our high value added industries, primarily through investment or public policy action. Infrastructure investment in these areas would contribute to the prosperity of all local businesses.

The most critical infrastructure items include:

- ♦ A more secure water supply.
- ♦ Better access to international and local markets.

- ♦ Improve the region's telecommunications network.
- ♦ Cost effective access to hazardous and low radiation waste storage sites.
- ♦ Cost effective and environmentally safe sewage and solid waste capacity.

If the San Diego region is to maintain its quality of life and remain prosperous, improvements in these key infrastructure areas is essential. Until these infrastructure projects are actually built and are operational, our success in meeting this objective can be measured by monitoring the region's willingness and ability to implement the Committee's recommended actions regarding infrastructure improvements.

A brief description of the most important infrastructure projects and why they are important are listed below.

Water Supply

In order to ensure the success of the high value added businesses, the region must adopt policies which guarantee a more secure water supply. The reason for needing to support and adopt these policies is that more than 90 percent of the region's water is imported and the control of water allocation is currently decided at a federal rather than more local level.

Monitoring the region's success in providing reliable sources of water to businesses and residents can be gauged initially by opening dialogue or by making advancement in the following areas.

- ♦ Transferring control of the Central Valley Project from the Federal Government to the State of California in order to facilitate statewide planning of water programs.
- ♦ Promote a state transfer policy from willing sellers to make up a shortfall during times of drought, by agencies like CWA, .

Access to International and Local Markets

The geographic location of the San Diego region, adds a challenge to the accessibility of domestic markets via ground transport. In addition, our air transport and port facilities may currently be inadequate to facilitate future domestic and international trade demand. Easy access to domestic and foreign markets is crucial in order for high value added businesses to be successful in the region and to help our future economic prosperity. In order for San Diego to become a "hub" of international activity, infrastructure must be constructed which facilitates trade, taking full advantage of domestic, international, and especially Pacific Rim trade. Another critical factor in ensuring our long term economic success will be the region's ability to position itself to take advantage of the impending NAFTA agreement.

We are proposing to monitor the region's success in providing easy access to domestic and international markets. This can be gauged by progress made towards positioning ourselves locally to participate in the international trade market by promoting infrastructure projects which will foster international trade, most importantly with Mexico and the Pacific Rim countries.

Improve Telecommunications Network.

Telecommunications and information technology will be major factors in defining tomorrow's world. As global connectivity becomes more important, the region must organize and participate effectively in the information-led economy in order to reap the greatest benefits. Steps taken towards ensuring that the region improves it's telecommunication network can be considered as a success in this area.

Hazardous and Low-Level Radioactive Waste Disposal Facility

The production processes of the industries of the future, and the development of new technologies often results in byproducts which often times are classified as either hazardous

waste or low-level radioactive waste. Although these byproducts can be disposed of safely in the correct type of disposal facility, they cannot be dumped in the region's existing landfills. The problems associated with hazardous and low radiation waste disposal are some of the largest stumbling blocks to providing an environment suitable to attract high tech, high value added businesses which in turn create high paying job opportunities for the region's resident. Without disposal sites, companies may be forced to use costly on-site storage and face increasingly prohibitive costs related to their production process. Furthermore, these companies will find it more difficult to expand their operations in the state and the region, increasing the likelihood that they will expand their operations or relocate to other areas of the country.

OBJECTIVE 3.

Ensure a more productive labor force by properly educating, training, and preparing new entrants.

Another objective of the Economic Prosperity strategy is to ensure a more productive labor force by properly educating, training, and preparing new entrants. Education and training are important at all levels. However, basic skills such as those learned in high school are a necessary to prepare students to function in today's economy. Although achieving and promoting higher education in a region helps facilitate economic prosperity, the reduction in high school dropout rates may be of more immediate concern. In general, the people who are unable to finish high school for whatever reason, are probably not suited for high-paying high-value added jobs and therefore have lower income potential, and may require more public assistance than people who completed high school.

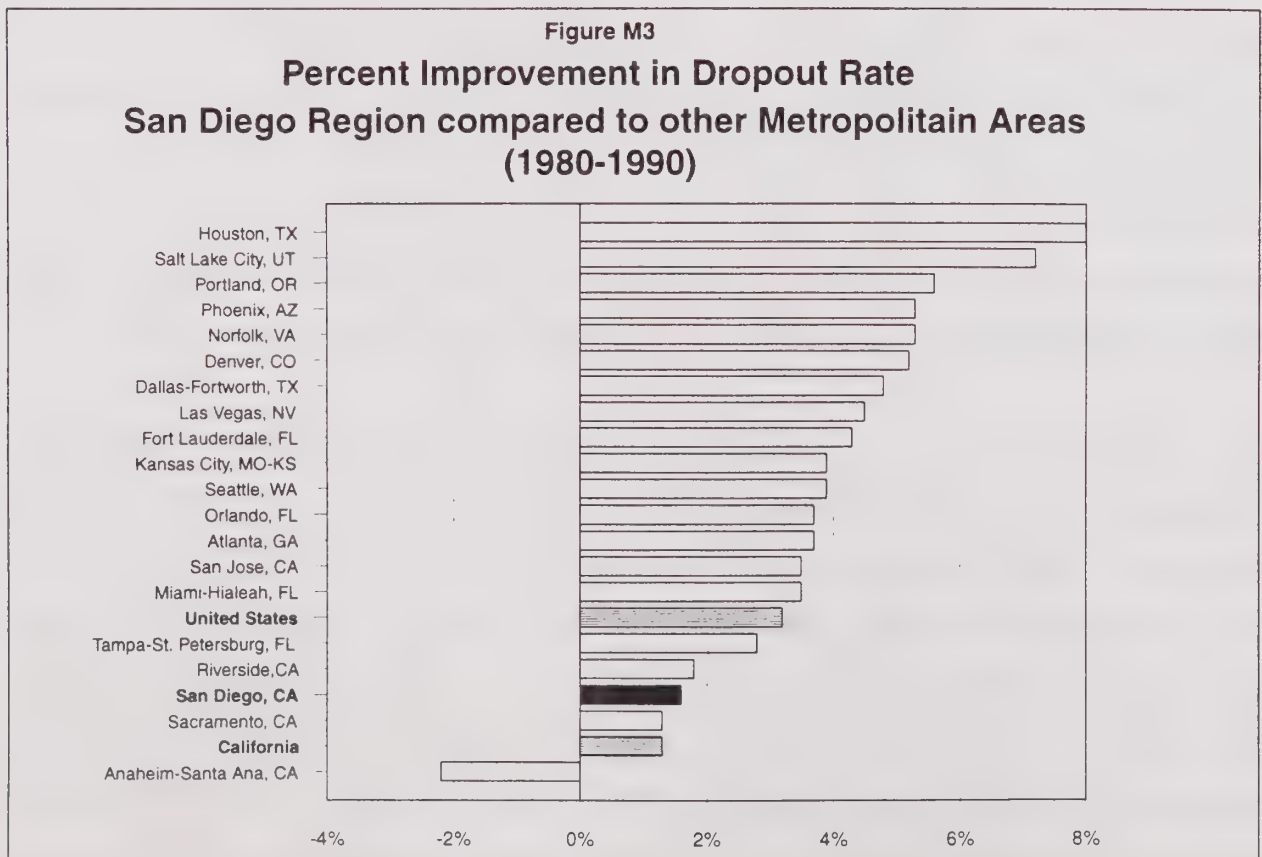
Initially, our success in increasing labor force productivity can be measured by our ability to reduce the status school dropout rate. In turn, reducing the dropout rate provides the foundation necessary for regional success as more of the region's residents are able to find gainful employment and take advantage of the region's economic opportunities. Also, the possibility exists that these efforts will further improve the quality of life by reducing the number of crimes committed and reducing the dependence of the region's residents on entitlement programs.

Three aspects of education are monitored which will provide a barometer of the region's success in dealing with the dropout rate problem. The first monitors the region's overall dropout rate compared to twenty metropolitan areas. If our policies are as good or better than other metropolitan areas, this indicator is expected to remain constant or to lower our ranking (if we have fewer high school dropouts) in relation to the other areas. As school districts in all Metropolitan areas are working hard to reduce their respective dropout rates, the second barometer of education monitors the region's percent improvement in the dropout rate compared

to the other areas. This allows us to compare our efforts directly with those of other Metropolitan areas. The third barometer measures educational attainment by ethnic group, in order to monitor and possibly target action or programs towards specific groups.

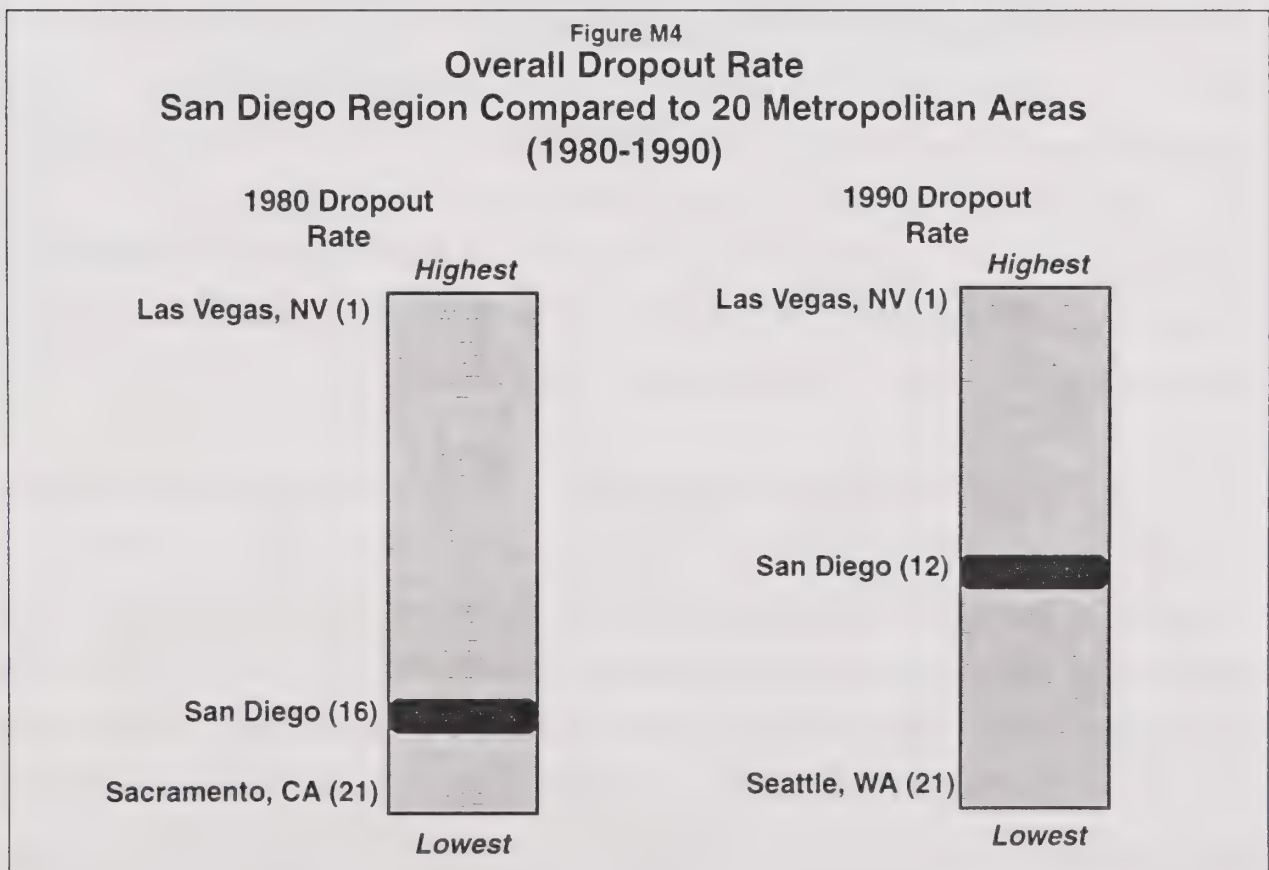
Improvement in Dropout Rates

One way to monitor the improvements in the preparedness of the labor force is to examine improvements in the dropout rate. School districts throughout the country have recognized the problems associated with keeping kids in school and have developed programs which, with varying degrees of success, have reduced the dropout rates over the last decade. Although all metropolitan areas with the exception of Anaheim-Santa Ana have succeeded in lowering the dropout rate, the San Diego region has one of the lowest improvement rates. Figure M3 shows that the San Diego region posted less than a 2 percent improvement in dropout rates, ranking 17th among 19 Metropolitan areas. In addition, the San Diego region had less improvement than the nation average of nearly 3 percent.



High School Dropout Rates

In order for the region to remain competitive, businesses require a pool of educated workers which they can employ. This educated workforce is the foundation upon which a successful economic policy can be built. Figure M4 shows that the San Diego region dropout rate fared well, ranking sixteenth lowest among the 20 Metropolitan areas in 1980. However, by 1990, the dropout rate rose to twelfth place compared to the other Metropolitan areas. This trend needs to be reversed so that the region can ensure a more productive labor force and provide an attractive pool of human capital to perspective businesses. Because the region competes directly with other areas to attract businesses, the San Diego region must improve our dropout rates faster than other Metropolitan other areas to remain competitive.



Educational Attainment

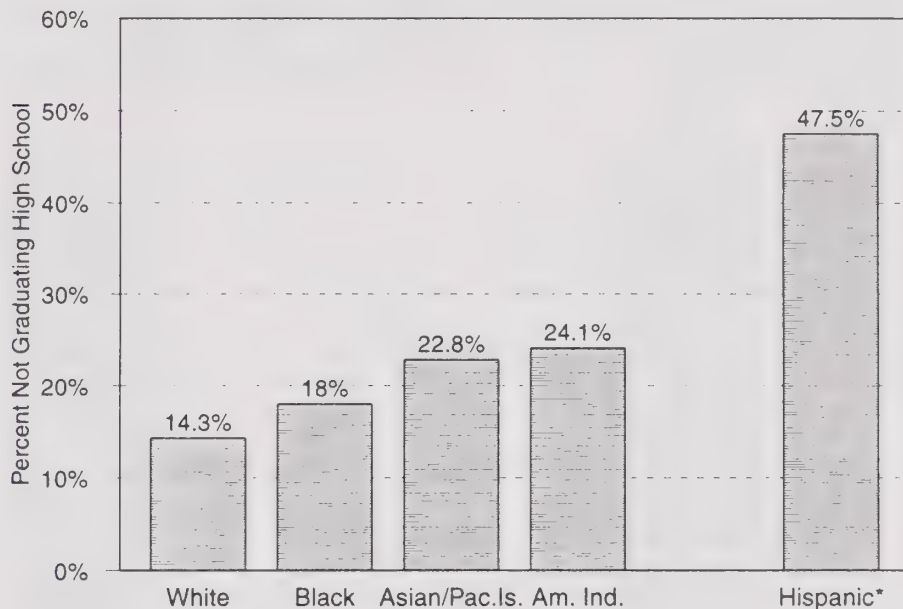
In order to provide an educated, well trained work force which attracts businesses and can effectively provide the human infrastructure the business community requires, improvement in the region's educational attainment is required. Educational attainment of 25+ year olds, measures the percent of population who have graduated from high school by the time they are 25. This includes those people who may have dropped out of high school and the later returned and received their diploma or GDE. This data is different from the Status dropout rate which measures those people ages (16-19) who should be in school but no longer attend.

The San Diego region has become more ethnically diverse in the last decade. According to the Census, the fastest growing ethnic groups between 1980 and 1990, measured as a percentage, were the Asian and Hispanic populations. These groups grew at a rate of 121 percent and 85 percent respectively. In comparison, the Non-hispanic White population grew at a rate of 19 percent while the Black population increased by 53 percent. Furthermore, SANDAG's Series 8 Regional Growth Forecast shows that the trend towards ethnic diversity continues through 2015. The fastest growing ethnic groups through the forecast period will be Hispanics, with an increase of 136 percent, and Asians and Other (includes American Indians) with 111 percent. In contrast, the black population grows by 54 percent, with the White population growing by 17 percent.

Figure M5 shows that the fastest growing segments of our regional population have a higher percentage of people who had not graduated high school by the time they were 25. In 1990, the Non-hispanic White population posted the lowest non-completion rate at 14.3 percent, Blacks posted an 18 percent rate followed by Asian/Pacific Islanders with 22.8 percent and American Indians/Others with 24.1 percent. Hispanics recorded a 47.5 percent non-completion rate in the San Diego region. Almost half of the region's Hispanic population and nearly a quarter of the Asian and population did not complete high school by the time they were 25. Monitoring improvement in the educational attainment rate by ethnic group will allow us to track where improvements are being made and how well the region is responding to our specific educational needs.

Figure M5

Educational Attainment of Persons 25yrs. and Older San Diego Region (1990)



* Persons of Hispanic Origin can be of any race.

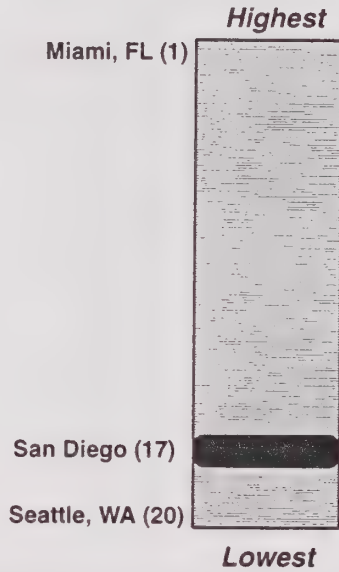
Source: U.S. Census; General Social and Economic Characteristics STF3C

Compared to other metropolitan areas, in 1990, the San Diego region fared well in the educational attainment rate of the Black population and the White population, the two slowest growing ethnic groups. On the other hand the fastest growing segments of our population, the Hispanic and Asian populations posted low educational attainment rates when compared to other Metropolitan areas. Figure M6 compares the San Diego region with 19 other Metropolitan areas as to the percent of population who did not complete high school by ethnic group. Of the 20 areas for which data is available, three Metropolitan areas have a higher percent of Non-hispanic White high school graduates, and only two areas graduate a higher percentage of Black students. However, locally, in comparison to other regions, Asian and Hispanic persons who did not graduate from high school is markedly higher. The San Diego region has the sixth highest percentage of Asian over 25 who did not graduate from high school, and the seventh highest percentage of Hispanics who did not graduate from high school. This barometer will allow us to track improvements by ethnicity compared to other Metropolitan areas.

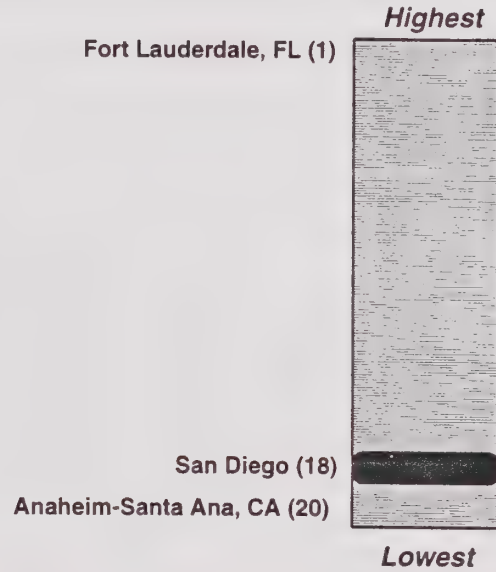
Figure M6

**Percent of Population 25+ who did not Complete High School
San Diego Region compared to Other Metropolitan Areas (1990)**

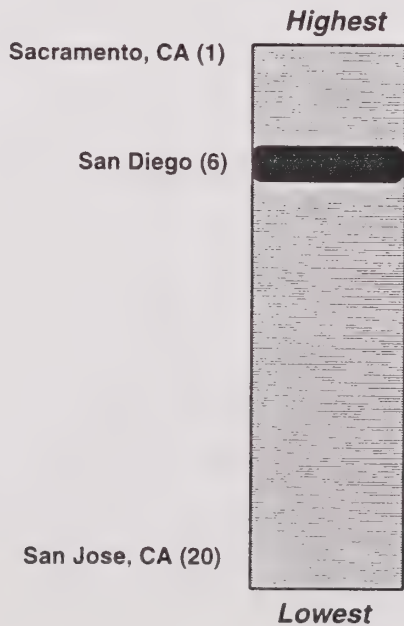
**1990 White
Not HS Graduate**



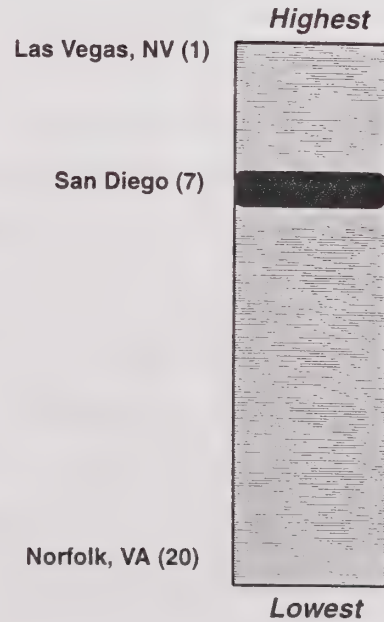
**1990 Black
Not HS Graduate**



**1990 Asian
Not HS Graduate**



**1990 Hispanic
Not HS Graduate**



OBJECTIVE 4.

Encourage the expansion of locally owned businesses which create job opportunities in high-paying industries, defined as those which provide the top 50 percent of the wages in the region.

In order to increase the region's per capita income relative to other Metropolitan areas, the strategy promotes the expansion of locally owned businesses that will create high-paying job opportunities requiring an educated, trained and skilled labor force. There are three important factors why the strategy lays a foundation for creating an economic environment in the region which fosters the creation of high paying job opportunities. First these jobs will aid in increasing our standard of living; second, wages paid in high paying employment sectors keep up better with inflation than jobs in low paying sectors; and third, jobs created locally in high paying industries results in lower population growth.

As part of the strategy, encouragement of "home grown" businesses, investment in infrastructure, and investment in education and training, will lead to higher paying job opportunities in the region, which in turn, ensure a rising standard of living. In addition, the expansion of internally generated, high value added jobs, helps to manage our population growth. These high value added jobs require fewer employees per unit of output, which helps lower the rate of employment related migration. These jobs also provide higher wages and more tax revenues per employee, providing more resources per person that can be used to help maintain the overall quality of life standards we have set.

By monitoring the mix of high value added job creation and low value added job creation in the region, changes in real per capita income in high paying and low paying employment sectors can be tracked and compared. Each employment sector is ranked according to its average pay per employee in 1980, 1985 and 1990. Using 1990 as a benchmark, the highest paying employment sectors, which collectively earn 50 percent of the total payroll in the region during 1990, are

- considered to be "High" paying. As shown in Table 5, in 1990, the top third of the jobs (in terms of employees) were paid half of the payroll (in terms of dollars). "Low" paying employment sectors are those containing bottom third of employment. The bottom third of the jobs shown in Table 5 earned only 18 percent of the payroll in the region in 1990.

Table 5
Employment by Sector
San Diego Region, 1980-1990

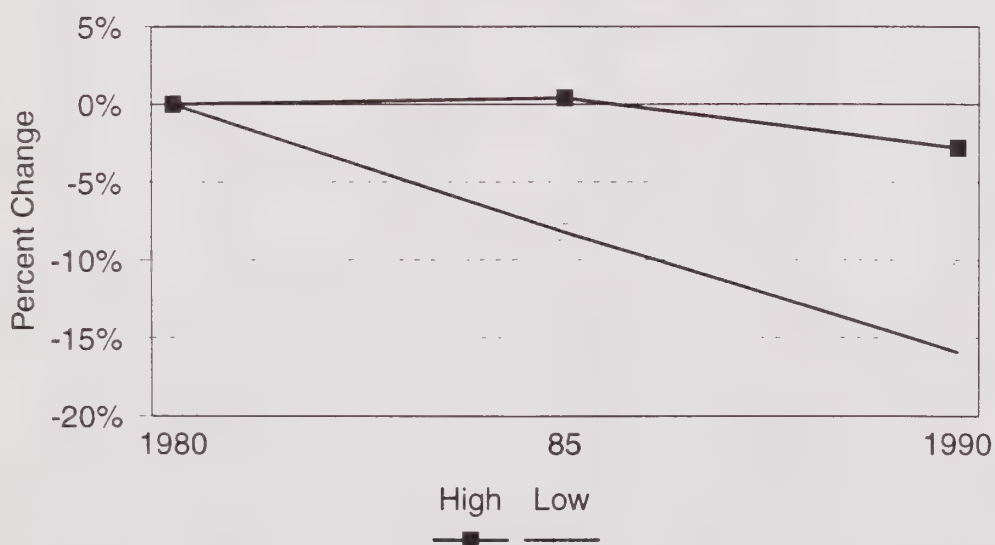
SIC SECTOR	1990 Avg. Pay	1980 Employment	1990 Employment	1980-90 Change in Emp.	Annual Avg. Change
29 Petroleum and Coal	\$49,270	83	111	28	3.1%
62 Security and Comm.	\$44,607	1,319	2,821	1,502	10.4%
81 Legal Services	\$44,494	3,789	10,232	6,443	15.5%
49 Electric/Gas/Sanitary	\$40,442	6,200	5,843	(357)	-0.5%
37 Transp. Equip	\$34,529	28,316	28,544	228	0.1%
48 Communication	\$33,959	10,842	10,014	(828)	-0.7%
35 Industrial Machinery	\$33,268	15,643	15,672	29	0.0%
45 Trans. by Air	\$33,141	4,538	4,747	209	0.4%
10 Mining	\$32,803	658	716	58	0.8%
28 Chemicals and Allied	\$32,727	1,916	3,355	1,439	6.8%
16 Heavy Construction	\$32,517	3,294	4,997	1,703	4.7%
33 Primary Metals	\$31,578	384	637	253	6.0%
38 Instrument and related	\$31,498	7,679	19,727	12,048	14.3%
61 Non-dep. Inst.	\$30,695	7,838	7,180	(658)	-0.8%
64 Insurance agents	\$29,679	3,019	5,468	2,449	7.4%
63 Insurance Carriers	\$29,542	5,239	8,829	3,590	6.2%
36 Electronic Equip	\$28,535	19,468	20,007	539	0.3%
50 Wholesale Trade (DUR)	\$28,513	18,065	26,955	8,890	4.5%
32 Stone, Clay, Glass	\$27,785	1,851	2,887	1,036	5.1%
15 General Contractors	\$26,326	11,008	16,277	5,269	4.4%
80 Health Services	\$25,888	35,741	62,508	26,767	6.8%
27 Printing and Publishing	\$25,724	7,047	12,030	4,983	6.4%
34 Fabricated Metals	\$24,748	3,871	6,349	2,478	5.8%
High Averages	\$30,231	197,808	275,906	78,098	3.6%
51 Wholesale Trade NON-DUR	\$24,285	9,660	16,647	6,987	6.6%
60 Depository Inst.	\$24,143	9,301	19,133	9,832	9.6%
26 Paper and Allied Products	\$23,099	424	555	131	2.8%
39 Misc Manuf.	\$22,792	3,081	5,220	2,139	6.3%
65 Real Estate	\$22,011	13,436	24,382	10,946	7.4%
55 Auto Dealers	\$21,969	15,646	21,068	5,422	3.2%
17 Special Trades	\$21,798	23,351	44,987	21,636	8.4%
20 Food and Kindred	\$21,603	6,376	3,206	(3,170)	-4.5%
67 Holding and other Inv.	\$21,117	1,102	2,508	1,406	11.6%
30 Rubber and misc. Plastics	\$20,982	1,163	3,419	2,256	17.6%
41 Passenger Transit	\$20,717	1,708	3,613	1,905	10.1%
42 Trucking and Warehousing	\$19,310	3,115	5,817	2,702	7.9%
57 Furniture and Homefur.	\$19,179	5,731	9,424	3,693	5.9%
25 Furniture and Fixtures	\$19,030	1,374	2,433	1,059	7.0%
73 Business Services	\$18,735	34,734	59,436	24,702	6.5%
24 Lumber and Wood Products	\$18,411	1,026	1,661	635	5.6%
52 Building Materials	\$18,296	4,071	7,204	3,133	7.0%
47 Transp. Services	\$18,223	1,650	2,999	1,349	7.4%
79 Amusement and Rec	\$18,063	7,105	10,931	3,826	4.9%
Mid Averages	\$20,905	144,054	244,643	100,589	6.3%
75 Auto repair	\$17,114	5,694	10,871	5,177	8.3%
31 Leather and products	\$15,848	526	297	(229)	-4.0%
82 Educational Services	\$15,402	5,003	12,287	7,284	13.2%
7 Ag. Services	\$14,810	4,266	8,787	4,521	9.6%
54 Food Stores	\$14,786	15,525	25,144	9,619	5.6%
23 Apparel	\$14,564	3,777	4,213	436	1.0%
59 Miscell. Retail	\$13,833	16,899	24,082	7,183	3.9%
22 Textile Mill	\$13,695	616	475	(141)	-2.1%
83 Social Services	\$13,251	7,998	13,273	5,275	6.0%
76 Misc. Repair	\$12,590	2,847	6,490	3,643	11.6%
70 Hotel and Other Lodging	\$12,105	14,886	24,631	9,745	6.0%
56 Apparel and Acc. Stores	\$11,623	6,763	11,997	5,234	7.0%
53 General Merch.	\$11,589	14,440	19,295	4,855	3.1%
86 Membership Organizations	\$11,323	8,117	13,851	5,734	6.4%
72 Personal Services	\$10,993	8,518	12,214	3,696	3.9%
78 Motion Pictures	\$10,826	1,380	3,728	2,348	15.5%
58 Eating and Drinking	\$8,010	43,073	75,217	32,144	6.8%
Low Averages	\$11,751	160,328	266,852	106,524	6.0%
All Industries	\$21,070	502,190	787,401	285,211	5.2%

Source: County Business Patterns, U.S. Department of Commerce, 1980 through 1990

In order to insure a rising standard of living in the region, income per capita in real dollar terms must increase. Creating jobs in high paying sectors helps ensure that this objective is met.

Figure M7 tracks the rate of change in average pay in high and low paying employment sectors. It can be seen that the change (decrease) in average pay in high paying employment sectors was less than 3 percent between 1980 and 1990, while average pay in the low paying sectors fell by 16 percent in real dollar terms. This trend indicates that jobs in high value added industries, such as those found in the manufacturing sector, have pay structures which are better suited to keep up with inflation, and in turn better able to maintain the standard of living in the region. Furthermore, jobs in the low paying, low value added industries have a harder time keeping up with inflation, losing approximately 1.5 percent each year in average pay, or buying power between 1980 and 1990.

Figure M7
Change in Average Pay of High and Low Paying Sectors*
San Diego Region (1980-1990)



* Pay Indexed to 1980.

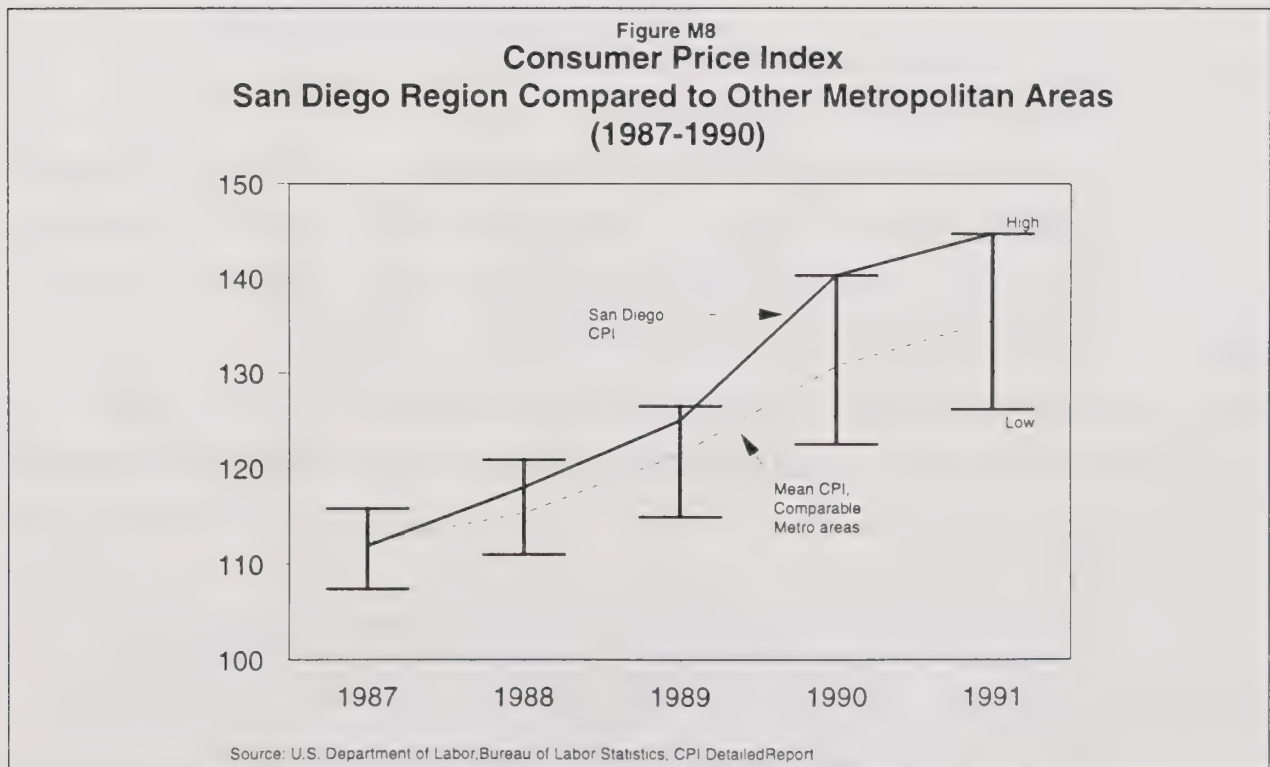
Source: Calculated from 1980-1990 County Business Patterns, U.S. Department of Commerce

OBJECTIVE 5

Reduce the rise in the region's cost of living to a level equal to or below other comparable metropolitan regions.

One of the objectives of the Economic Prosperity strategy is to reduce the rise in the region's cost of living to a level equal to or below other comparable Metropolitan areas. Specific policies cannot be enacted which directly reduce the cost of living as measured by the Consumer Price Index (CPI). However, by monitoring the CPI one can gain a sense for how rapidly the region's cost of living is changing as compared to other Metropolitan areas.

Figure M8 shows how the San Diego region as fared in terms of cost of living over the past five years compared to other Metropolitan areas. Monitoring the CPI over time shows that the San Diego region is becoming more expensive than comparable areas, directly affecting the regions' ability to maintain its Standard of Living. In 1987, the Consumer Price Index in for this region fell about half way between the Metropolitan area with the highest CPI and the Metropolitan area with the lowest CPI. By 1990, primarily due to increases in housing, medical and transportation costs, the CPI index in the San Diego region was the highest of all the metropolitan areas.



OBJECTIVE 6

Maintain the cost of local government facilities and services at a level equal to or below other comparable metropolitan regions.

Another important objective of the Economic Prosperity element is to maintain the cost of local government facilities and services at a level equal to or below other comparable Metropolitan areas. The ratio of local government expenditures per capita over personal income per capita gives us a way to measure the region's ability to afford any changes in government programs.

Data are not available at the same 20 geographic levels used to compare this region with 20 other Metropolitan areas. A comparison is made between this region and all other large counties in the United States³. In 1985, local governments in large counties spent approximately \$610 per capita to provide services compared to \$540 in the San Diego region. In 1990, per capita expenditures by large counties increased by \$60 to \$670 while expenditures in the San Diego region increased by \$135 to \$675.

Figure M9 compares local government expenditures in 1985 and 1990 for the San Diego region and other large counties. As can be seen in Figure M9, as recently as 1985, the San Diego region spent less per capita than other large counties to provide services. By 1990, local government expenditures per capita in the San Diego region had grown to a level greater than other large counties, in essence increasing the cost of government in the San Diego region faster than other areas⁴.

In order to determine trends in the cost of local government expenditures, Figure M10 shows that between 1985 and 1990, the increase in expenditures per capita in the San Diego region outpaced other large counties by more than 2.5 to 1. Large counties increased their total expenditures in

³ In 1985, 75 counties with populations in excess of 500,000 constituted "large" counties. In 1990, data for counties with populations in excess of 1,000,000 became available. The 24 counties which comprise the new "large" county designations includes San Diego county.

⁴ Total government expenditures as defined in this analysis are those monies paid by a government and its agencies to provide all service including, but not limited to, Social Services and Income Maintenance (includes Public Welfare, Hospitals and Health), Highways, Public Safety (Police Protection and Correction), and Environment and Housing (Sewerage, Solid Waste Management, Parks and Recreation, and Housing and Community development). Between 1985 and 1990, expenditures on Social Services increased while expenditures on Highways, Public Safety, and Environment and Housing decreased. All dollar figures are expressed in 1990 dollars to allow for comparison.

real dollar terms, by ten percent while the San Diego region increased expenditures by 25 percent. Slowing the rate of increase to a level closer to that of other Metropolitan areas can be considered a measure of success in keeping government expenditures down.

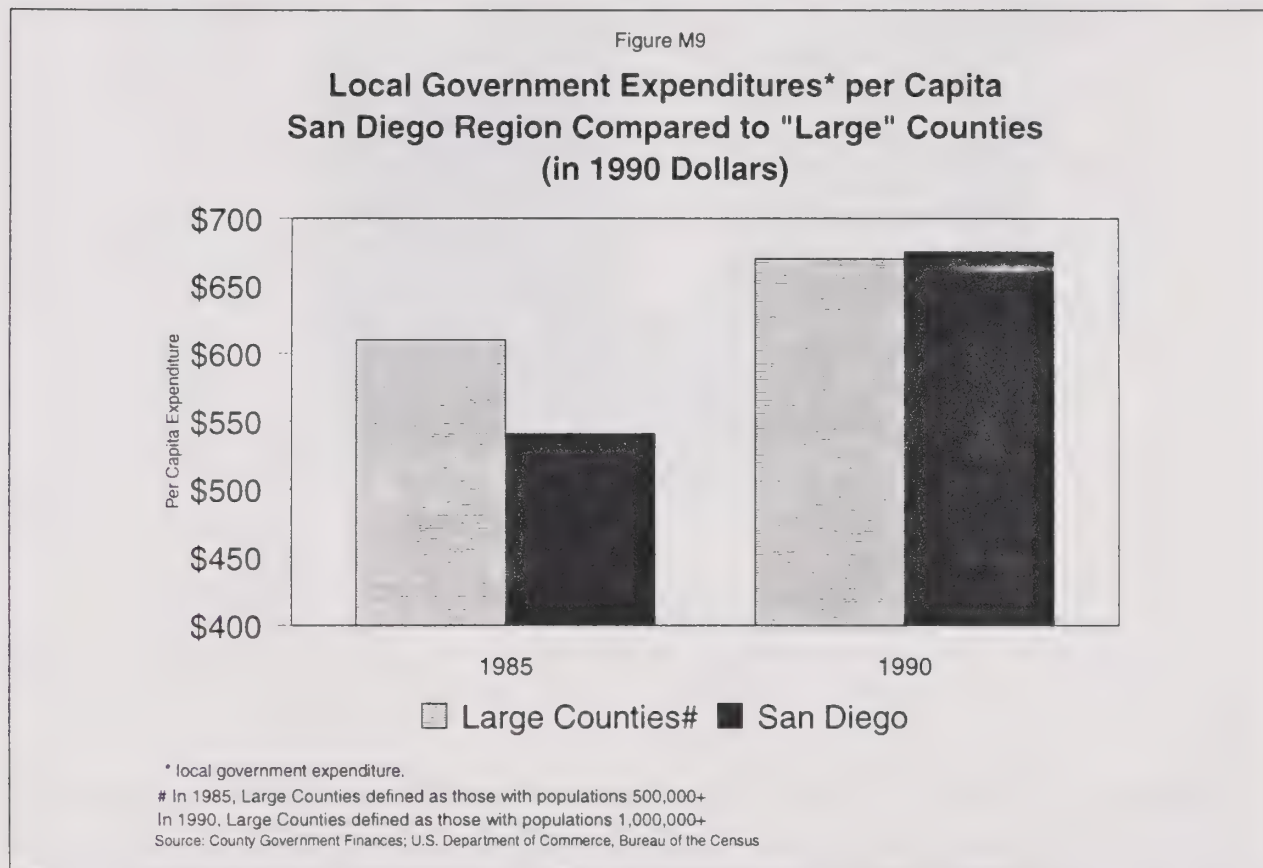
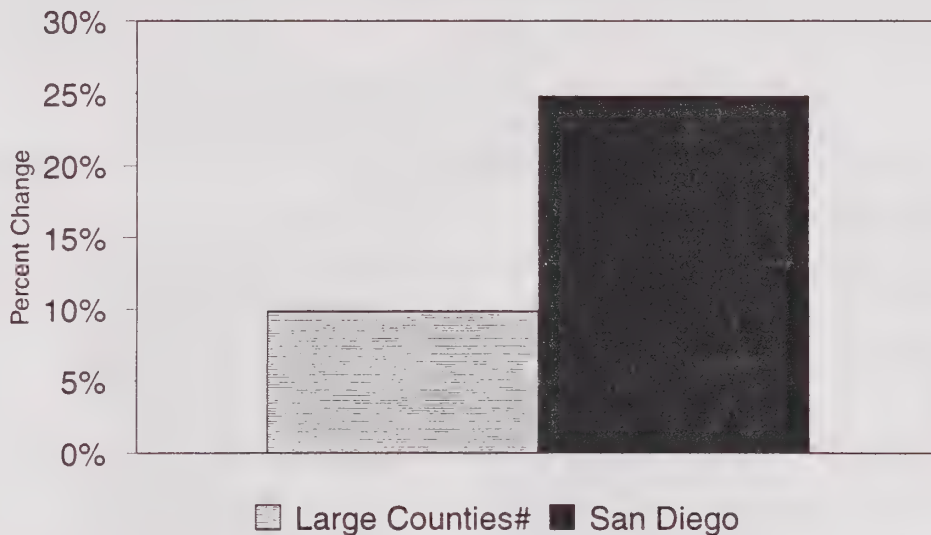


Figure M11 serves as the monitoring variable and shows the ratio of local government expenditures per capita over personal income per capita. In 1985, the San Diego region's per capita government expenditures was 2.9 percent of per capita income. By 1990, this percentage had increased by one-half of one percent to 3.4 percent. This means that it requires a larger proportion of per capita income to pay for our local government's facilities and standards in 1990 than it did in 1985.

Figure M10

Percent Change in Government Expenditures Per Capita San Diego Region Compared to "Large" Counties (1985-1990)



* Total of all local government expenditures

In 1985, Large Counties defined as those with populations 500,000+

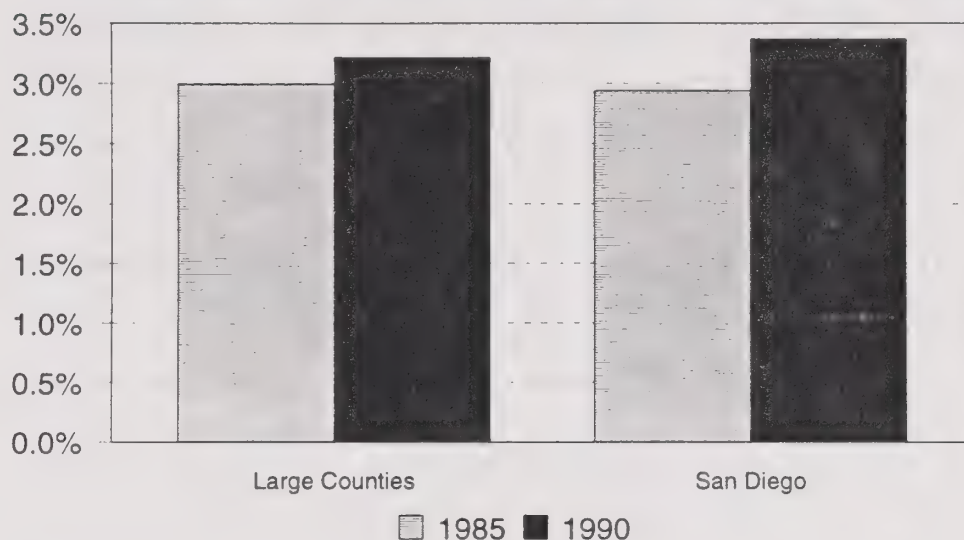
In 1990, Large Counties defined as those with populations 1,000,000+

Source: County Government Finances; U.S. Department of Commerce, Bureau of the Census

In comparison, the ratio for "Large" counties increased by only two tenths of one percent. Decreasing the ratio, or relationship between per capita income and government expenditures signifies that the region is successful in maintaining the cost of local government. Increasing its affordability to the region's residents can be considered a measure of success.

Figure M11

**Ratio of Local Government Expenditures* per Capita and per Capita Income
San Diego Region Compared to other Large Counties* (1985 and 1990)**



*Total of all local government expenditure.

In 1985, Large Counties defined as those with populations 500,000+
In 1990, Large Counties defined as those with populations 1,000,000+

Source: County Government Finances; U.S. Department of Commerce, Bureau of the Census

APPENDICES

APPENDICES

TABLE OF CONTENTS

APPENDIX 1: ADDRESSING ECONOMIC PROSPERITY IN THE SAN DIEGO REGION	A-1
Overview	A-3
Summary of Findings	A-5
Indicator Categories	A-17
1. Economic and Social Performance	A-17
2. Business Vitality	A-35
3. Economic Development Capacity	A-47
4. Infrastructure Capacity	A-53
Methodology for Selecting Comparable Metro Areas	A-69
APPENDIX 2: A CLOSER LOOK AT SAN DIEGO	A-75
Assessing the Quality of Our Economic Growth	A-77
Site Selection Criteria	A-86
APPENDIX 3: ECONOMIC DEVELOPMENT AGENCIES AND THEIR RESPONSIBILITIES	A-105
Introduction	A-107
Responsibility of Identified Agencies	A-110

APPENDICES

LIST OF FIGURES

Figure A1	Population Change by Ethnic Group 1980-1990, San Diego Region	A-19
Figure A2	Components of Population Change 1980-1990, San Diego Region	A-19
Figure A3	Unemployment Rate, San Diego California, United States 1980 through 1991	A-21
Figure A4	Unemployment Rate, San Diego Region Compared to Twenty Selected Metro Regions (1989)	A-21
Figure A5	Change in Per Capita Personal Income (1980=100) San Diego, California, United States, 1980 through 1990	A-23
Figure A6	1988 Per Capita Income, San Diego Region Compared to Twenty Selected Metro Regions	A-23
Figure A7	Average Annual Salary by Employment Sector San Diego Region (1989 preliminary)	A-27
Figure A8	Average Annual Pay, All Employees (1989 preliminary)	A-27
Figure A9	Average Annual Pay by Employment Sector, San Diego Region Compared to Twenty Selected Metro Areas	A-27
Figure A10	Change in Consumer Price Index Components San Diego Region (1982-84 average) through 1980	A-29
Figure A11	Change in Consumer Price Index, All Metro Regions (1982-84 average) through 1990	A-29
Figure A12	Change in Components of the Consumer Price Index	A-29
Figure A13	Social and Cultural Conditions, San Diego Region Compared to Twenty Selected Metro Regions	A-31
Figure A14	Employment Growth by Jurisdiction	A-33
Figure A15	Median Household Income by Jurisdiction	A-33

LIST OF FIGURES

(Continued)

Figure A16	San Diego Region Compared to United States	A-37
Figure A17	Per Capita Retail Sales, San Diego, California, United States	A-41
Figure A18	Per Capita Retail Sales, San Diego Region Compared to Twenty Selected Metro Regions (1989)	A-41
Figure A19	Minority Owned Businesses	A-46
Figure A20	Minority Owned Businesses (Per Capita)	A-46
Figure A21	Development Capacity	A-51
Figure A22	Percent of Urban Freeway Miles by Level of Service	A-55
Figure A23	Transportation Capacity Indicators	A-55
Figure A24	Requirements by the Manufacturing and Service Sectors to Accommodate \$1,000,000 of Demand in the San Diego Economy	A-61
Figure A25	Comparison of Taxes Generated Per Employee	A-61
Figure A26	Comparable Metropolitan Area Selection Criteria	A-74
Figure A27	Employment by Sector, San Diego Region, 1980-1990	A-78
Figure A28	Employment Compared to Payroll (1990 Industries)	A-79
Figure A29	Change in Average Pay in High and Low Paying Sectors	A-81
Figure A30	Job Creation in High and Low Paying Sectors	A-81
Figure A31	Population by Age Group	A-84
Figure A32	Population Ages 20-34	A-85
Figure A33	Site Selection Factors (Rankings)	A-94
Map 1:	Location of Selected Metropolitan Areas	A-73

APPENDIX 1
ASSESSING ECONOMIC PROSPERITY
IN THE SAN DIEGO REGION

ASSESSING ECONOMIC PROSPERITY IN THE SAN DIEGO REGION

OVERVIEW

Over the last ten years, there has been a fundamental shift in the economic and social landscape. This dramatic change has been led by the rise of global markets, the fast pace of technological development, alterations in lifestyles, and demographic changes.

No longer is the U.S. the unchallenged leader in the world economy. Communities once insulated from international competition today stand toe-to-toe with those in other nations that are competing successfully for virtually every good and service we produce. Under the new terms of global competition, businesses need to draw on essential services and resources found in their local regions -- from skilled workers to technology to venture capital to efficient and high-quality physical infrastructure and amenities. Increasingly, efficient management of well-developed local resources has become the determinant of a region's economic and social well-being.

In addition to the external influences of growing global competition, some of the most important challenges this region faces are internal. A fundamental question which must be addressed is what kind of a region do we want to be? A part of this question, and a key task for this report, is to synthesize the goals of economic growth and the need to maintain and improve environmental quality. This may be best accomplished at the regional level.

The San Diego Association of Governments has produced a draft Regional Growth Management Strategy for the San Diego region. This strategy applies a quality of life approach to growth management. It establishes quality of life standards and objectives for the region and recommended actions are drawn from a set of state/federally mandated functional plans, and regionally initiated plans and programs. The purpose of the strategy is to link these mandates and regional initiatives together into a consistent plan. The plan is intended to facilitate

decision-making by elected officials on growth-related issues, creating a framework for managing growth in the region.

During the review of the draft Regional Growth Management Strategy, a number of comments expressed concern over not including a commitment to economic prosperity. The comments suggested adding an economic factor to the Strategy, making the strength and health of the local economy equally as important as the other quality of life factors. This report attempts to evaluate the economic prosperity of the region. In addition, the report discusses the inextricable linkages between economic growth, opportunity, prosperity and successfully meeting the Strategy's quality of life goals and objectives.

SUMMARY OF FINDINGS

Judging the Region's Health

There is available a vast array of information for assessing the challenges facing the San Diego region. Perhaps the most difficult task is organizing the information so it portrays the big picture. Who are the competition? How do we stack up against them? What are the region's assets? Where do we need to improve? What investments do we need to make today to be healthy and prosperous tomorrow? Are our goals realistic in terms of available resources? What additional resources are needed in order for the region's goals to be achieved?

Along with knowing some of the questions to ask, we also need a way to judge the answers. SANDAG proposes to accomplish this by providing sufficient information to make two judgments for each of four questions or indicator categories. The four categories are:

1. How well is the region performing?

Ask most anyone how well the San Diego region is doing, and the answer will likely be in terms of jobs, income, and general social conditions like the crime rate. But what is not that well known is how we stack up against other regions.

2. How well are the businesses in the region faring?

The San Diego region's economic and social well-being is largely determined by the vitality of the business community, which organizes and manages the creation of most jobs and wealth. Business vitality is rooted in productivity, market strength and diversity, as well as the ability of new firms to start up and older ones to innovate and adapt.

3. What resource capacities are available to ensure the region's economic and social well-being in the future?

While measures of performance and business vitality tell us a lot about how the region is doing today, we also need to know something about how well it is likely to do in the future. We need to understand the region's potential to generate sustained and widely shared economic and social benefits in the face of rapid economic, technological and demographic changes.

4. What is the capacity of the region's infrastructure to ensure its economic and social well-being in the future?

Infrastructure -- roads, mass transit, airports, telecommunications, water and other utilities -- as well as the fiscal capacity of local governments are critical ingredients to economic and social well-being. The public sector is often overlooked as a resource promoting the health of the regional economy -- and seen simply as a way to meet basic social needs. But the vitality of business activity is strongly linked to an adequate level of public investment in education and other activities, as well as access to key public goods like a high-quality transportation system or affordable utility rates.

The first judgment, for each category, we need to make is the strengths and weakness' of the San Diego region compared with a sample of other similar metropolitan regions in other parts of the nation. This will provide us with a comparative snapshot. The second type of judgment is how the San Diego region has fared over time. This will provide a dynamic look at the San Diego region, and address whether the region is improving, stable or declining. The procedure used to choose other similar metropolitan regions is located in the appendix of this report.

Summary of Findings

The economic health of the San Diego region through 1990 was average. But today, average has been replaced with economic decline, stagnation, and uncertainty. A look at specific indicators and findings, compiled from the work of the SANDAG Regional Economic Development Advisory Committee, shows that the region is currently facing serious challenges. But challenges are also opportunities. A summary of the findings from the Advisory Committee's work is listed below, exposing some of the challenges and opportunities that face the region today. The findings have been divided into four main areas: Economic and Social Performance, Business Vitality, Resource Capacity, and Publicly Supported Infrastructure Capacity.

The Regional Economic Development Strategy Advisory Committee felt that finding number one deserved special attention. A full discussion of the first finding can be found in the report "Evaluating Economic Prosperity In The San Diego Region", under the section, Indicator Category 4: Infrastructure Capacity.

1. It is a mistake to allow manufacturing, high value added employment in this region to decline. The regional economy and the local governments' ability to serve its residents could be made worse by policies that exacerbate this trend. An example of this is provided in the following paragraph. In order to attempt to stem the decline in local high value added job opportunities, it is now necessary to develop an infrastructure investment and public policy strategy that supports and encourages these companies the way the visitor industry has been encouraged. Just as the region has invested a great deal of public resources into developing the natural tourist environment locally; so to should it take advantage of, invest, and build upon the existing structure of Universities, research and development facilities, emerging growth companies, and existing industries to create a fertile environment for the development of the high value added job opportunities that will be created by these industries.

Using the service industry and manufacturing industry as examples, the net result from our local economy responding to a \$1 million increase in demand for services (visitors)

and goods (consumers of manufactured goods) can be estimated. The manufacturing sector requires 18.2 employees to respond to a \$1 million dollar increase in its goods production, whereas the service sector requires 46.5 employees to respond to the same increase in demand for its services. The primary reason for this major difference is that the manufacturing sector employees require capital or machines to produce the product, whereas the product of the service sector is, for the most part, labor only. Thus, for every \$1 million increase in demand for "services", the region requires more than two and one-half times the number of employees to respond than it does for producing "goods". More importantly for local government, the service sector pays 40% less in taxes per employee than does the manufacturing sector. Thus, there is less population growth to manage and public revenues are greater per capita, per \$1 million increase in product demand in the manufacturing industry.

The remaining summary of findings are listed below.

Economic and Social Performance

2. Over the past several decades the San Diego region has grown in virtually all areas that can be measured. Although, there is agreement that growth was rapid, there is some disagreement on the effects this growth had on the region's standard of living, and overall quality of life.
3. Natural increase (births less deaths) is contributing a growing share of the annual population growth. During the early 1990s natural increase contributed about 50 percent of the population growth, compared to approximately 30 percent during the 1970s and 80s. If, as expected, this trend continues, a majority of our new labor force entrants will be from natural increase and made up of minorities. Their economic status in the region will be determined by the "quality" of the job opportunities available to the new labor force entrants.

4. The region has a good record of creating new employment opportunities and keeping its unemployment rate relatively low. Since 1989, however, economic conditions, nationally, statewide and locally have deteriorated. During 1992 and 1993, the unemployment rate has remained well-above 7.0% from 3.9% in 1989.
5. The San Diego region continues to experience income and earnings rates of growth below the state and nation. During the 1980s real per capita income growth was less than one-half of one percent per year, less than one-half the rate recorded at the state level and one-third the level recorded nationally. When compared to other metro regions the San Diego region ranks eighth out of 21 regions in per capita income.
6. The top one-third of non-government industry jobs in the San Diego region accounts for about 50 percent of the payroll. Employees in these industries experienced no real increase in their average pay, and accounted for 28 percent of total employment growth between 1980 and 1990. The bottom one-third of non-government jobs accounts for 18 percent of payroll. Employees in these industries experienced a 15 percent decline in real wages, and accounted for 36 percent of total employment growth over the decade.
7. The rate of change in San Diego's consumer price index (CPI) was the highest of 20 comparable metropolitan areas (these areas are listed in the report "Evaluating Economic Prosperity In The San Diego Region"), and higher than the state's and the nation's, between 1982 and 1990, rising 40.3 percent. The consumer price index is used to measure an area's rate of inflation or rate of change in its cost of living. The rate of change in the components that make up the local CPI was the highest or near the top in each category except for gas and electricity. Locally, the largest increases in the CPI components were recorded in medical care (78%), public transportation (65%), and shelter (57%). The index level for gas fell 23 percent and for electricity the index was 11.7 percent lower than the price recorded in 1982.
8. The report, "Occupational Outlook for San Diego County, 1992," compiled by the Private Industry Council and the State Employment Development Department, shows that a

majority of the growth in jobs forecast for this region are primarily retail trade and service sector jobs. SANDAG's preliminary Series 8 long term employment outlook concurs with this projection, with nearly 70 percent of the region's employment growth occurring in the services and retail trade sectors. Thus, the forecast of job growth is primarily low value added jobs, that are at the lower end of the salary scale, and require the least education and training of its workers.

9. The SANDAG Forecasts show the region growing by more than 1 million people between 1990 and 2015. Over the same time period, real per capita income, a measure of the region's standard of living, is projected to decline. Thus, as the region expands, the quality of its projected economic growth may be insufficient to maintain a stable standard of living.

Business Vitality

10. Most of this region's new job opportunities will come from "home grown" entrepreneurs and businesses, not from outsiders. Between 75 and 80 percent of net new employment growth comes from new business startups and on-site expansions of existing businesses, and more than half of all new jobs are produced by independent businesses less than 5 years old. Small businesses, those with fewer than 50 employees, are credited with providing two of every three new jobs. In the San Diego region, 95 percent of the businesses have fewer than 50 employees, and 61 percent report having between 0 and 4 employees.
11. International trade is an important and rapidly growing contributor to the national and local economy. Nationally, international trade, which makes up about 15 percent of total Gross Domestic Product, is expected to account for up 80 percent of its growth. Locally, a 1986 Department of Commerce survey showed the value of exports during the first quarter of that year to be \$1.2 billion. Our three largest trading partners were Mexico, and countries in Asia, and Europe.

12. Our most important international trade industries include: electrical and electronic machinery, non-electrical machinery, scientific instruments and transportation equipment. Locally, these industries account for 60 percent of total manufacturing employment. Statewide, these industries export between 51 and 88 percent of their products by air. The lack of an adequate airport facility and capacity may hinder the region's ability to retain these industries as they expand their operations to meet a growing worldwide demand for their products.
13. The region has only one Fortune 500 company headquartered here and it possesses a high dependency on federal government activity. Recently two major local financial institutions announced their take over by the Resolution Trust Corporation. These indicators suggest a vulnerability for the region because of its dependency on decisions made by managers who do not live in the area.
14. In the San Diego region, the aerospace industry employed 44 percent of the total manufacturing industry in January 1990. The national recession and cutbacks in DOD contract awards have reduced the number of local aerospace jobs by 13 percent, equaling the proportion of jobs lost statewide. Additional DOD expenditure cutbacks are expected, and there is a growing realization that the DOD dependent aerospace jobs that have been lost are permanent job losses.
15. The number of local bio-tech companies grew from 5 in 1978 to over 72 in 1989. Most of these businesses are fledgling bio-tech firms, which have not yet brought their products to market. The region's ability to retain these companies, and accommodate their manufacturing facilities as they bring their products to market, will determine how successful we are in taking full advantage of this opportunity.
16. The growth in the region's per capita retail sales lagged behind the nation and the state each year between 1980 and 1990. The lack of growth places the region near the lowest when compared with other metro regions across the nation.

Economic Development Capacity

17. The San Diego region has been following state and national trends in the rising number of adults that have completed high school and college. The region's overall high school completion rate is 12 percentage points higher than the nation's.
18. Locally, the 1990 status high school dropout rate is 18.2 percent compared to the national rate of 12.1 percent. The high local rate may be related to the relatively higher status dropout rates for Hispanics. Hispanic status dropout rates for the west region of the United States rose to nearly 40 percent during 1990, compared to an overall dropout rate of nearly 15 percent. This trend, if it continues, may prove very costly in terms of labor force training, especially in light of the high rate of growth expected for the Hispanic population over the next 20 years. In addition, there is a strong and positive relationship between education and higher earnings.
19. A recent survey of the 2,400 business members of the Chamber of Commerce, undertaken by The Business Roundtable for Education, found that employers feel that schools are doing a below average job or worse. Only 1 out of 10 thought they were doing a good or very good job. Another 2 out of 10 said they were doing a fair or average job.
20. Other social conditions which affect the preparedness of the labor force are births to unwed mothers and crime. The number of births to unmarried women rose locally at a rate that exceeds the rate of growth for all births. In 1989, 28 percent of all births locally were to unmarried women, compared to 17 percent in 1980. The region's crime rate of 7.2 crimes committed per 100 persons is 25 percent above the nation's rate and 10 percent above the state's rate. The San Diego region ranked 18th in crimes per capita when compared with 20 other metropolitan areas.

21. When compared to the other 20 metro regions, local family conditions were relatively better locally. The local incidence of infant mortality ranked the region 15th and local births to teenage women ranked the region 17th.
22. The San Diego region ranks second highest of the 20 comparable metro regions for the number and type of educational facilities. These institutions have provided the region with many research facilities. The region ranks fourth in the country in the concentration of high technology industries.
23. In contrast to the national banking industry, California banks finished the year with a huge loss in the fourth quarter of 1991. California banking industry earnings plummeted as problem real estate assets grew worse and loan loss provisions soared. In California, 25 percent of all banks reported losses for the year, up from 12 percent in 1990. Nationally, only 10.8 percent of U.S. banks recorded losses for the year.
24. Over the past five years, the region has been one of the five least affordable housing markets. The San Diego region ranked third highest in housing cost among the 20 metro regions. During 1990, the average price of a local house was 97 percent higher than the national average. The average price of a house locally was 60 percent above the national average during 1980. In addition, the median cost of utilities was 24 percent above the national average, and property taxes were 63 percent above the national average. During 1990, over 80 percent of the region's households could not afford to purchase the median priced home. The proportion of the region's households that live in owner occupied units fell between 1980 and 1990, and currently the region ranks fourth lowest of nearly 80 metro areas.
25. The value of local development impact fees collected depends upon the pace of development. Using SANDAG's forecasts as an indicator of growth, local jurisdictions are expected to collect on average \$275 million annually in development impact fees, measured in 1990 dollars. This aggregate amount is greater than the \$212 million in sales tax revenue collected by local jurisdictions during fiscal year 1989. Development

impact fees account for 9 percent of the residential building permit value, 20 percent of the commercial building permit value, and 15 percent of the industrial building permit value.

Infrastructure Capacity

26. According to SANDAG's Regional Public Facilities Financing Plan, local government spent \$4.9 billion on public facilities and services during fiscal year 1989. Expenditures on operations and maintenance accounted for 95 percent; the remaining 5 percent was spent on the capital cost of facilities. The revenues necessary to fund regional facilities is less than current sources can provide. The projected shortfall is \$12.9 billion over the period 1989-2010.
27. Nationwide, criteria such as market access, public infrastructure (water, energy, transportation), and state and local taxes are considered among the most important for site selection. These criteria are not considered as important by local companies. One explanation for this difference is that firms which consider these criteria as important, have recognized that the San Diego region is lacking, and have selected another location. These differences, if they are allowed to remain may hinder our local efforts to retain the expansion of companies in our emerging growth industries.
28. The major infrastructure concerns of this region include a hazardous and low radiation waste storage site(s), solid waste and sewage capacity, improved local and international market access (transportation-highway, rail, port and air service), improved telecommunications and fiber optics system, a more secure water supply, and a better supply of affordable housing. There is no regional consensus or priority attached to this list. Much of the investment in infrastructure in this region that has effected economic growth has been within the visitor industry and in military establishments. .

29. The San Diego region ranked second best when compared to the 20 other metro regions in commute time to and from work. This finding may in part be due to a favorable jobs-housing balance in this region compared to the others.
30. The region's major airport is currently capable of handling domestically generated air traffic. However, according to the Port of San Diego, as the operator of the airport, in a Board Policy Statement adopted in January, 1989, the geographical constraints at Lindbergh Field make it incapable of accommodating the growth in air traffic, which is expected as the San Diego region continues to develop and prosper.
31. The region has very limited water resources and is dependent upon importing as much as 95 percent of its water from as far away as 600 miles. Drought conditions in recent years forced many areas in Southern California, including some in the San Diego region, to implement mandatory water rationing and conservation programs.
32. The State of California does not have an adequate low-level radioactive disposal facility. Hospitals, clinics, and bio-tech companies generate low-level radioactive material as part of normal daily operations. The lack of access to such a facility may hinder the region's ability to retain many of our emerging growth companies as they develop products and expand their operations to meet a growing worldwide demand for their goods and services.

INDICATOR CATEGORIES

1: Economic And Social Performance

The economic and social performance measures are intended to show how the San Diego region is doing in terms of measures that relate directly to people. The indicators attempt to assess a bottomline: is the quality of life improving for adults, and will children have an opportunity for an even better life?

Four categories of economic and social performance are examined:

- ♦ Population and Employment -- the extent to which the region is attracting people and providing jobs for those who want them. Measures include population growth, net migration, short-term and long-term employment growth, unemployment rate and labor force participation rate.
- ♦ Earnings and Income -- how much people get paid for their work and how their overall income fares. Measures include average earnings at work, the growth in average earnings, per capita total income, the growth in per capita total income, the share of total income that comes from earnings at work, poverty rate and household buying power.
- ♦ Social and Cultural Conditions -- aspects of people's social and physical environment that are not directly related to their employment. Measures include access to recreational and cultural facilities, crime rate, poverty rate, cost of living and value of property.
- ♦ Intra-Regional Disparities -- how the economic and social fortunes within the region vary between its central city (City of San Diego) and its suburbs (other cities and the unincorporated communities). Measures include the ratio of central city to suburban rates of infant mortality, crime, SAT scores, per capita income, poverty, tax revenue per capita, and total government expenditures per capita.

Population

The 1990 Census revealed that the population of the San Diego region increased by more than 636,000 persons since 1980; a gain of 34.2%. During the decade, the region's population grew faster than the state as a whole (26%), and about four times faster than the nation. This growth places San Diego fourth in terms of population when compared to the twenty other metro areas used for comparison in this study. The population growth and net migration gains recorded locally were among the top when compared to other major metropolitan regions across the nation.

The ethnic make up of the local population growth showed wide variations in its growth, which may have an impact on the components of population growth for decades to come (Figure A1). Overall, Whites gained less than 20%, while Blacks increased by almost 47%. The population of Hispanics and Asians and Others each gained almost 86%. The ethnic group showing the largest real gain was the Hispanics. Although this group was only one-fifth the size of the White group in 1980, their numeric gain over the decade was almost as large, and accounted for 37% of the region's total population growth. Hispanics rose from 14.8% in 1980 to 20.4 % in 1990.

There are two components of population change. Natural increase is the difference between the number of births and the number of deaths during a given period of time. Net migration refers to the difference between the number of people who move into an area and the number who move out. Nearly 65% of the population growth in the San Diego region during the 1980s was from net migration and the remainder from natural increase (Figure A2). Net migration contributed about the same proportion to population growth during the 1970s. Migration accounted for much of the population growth for the White and Asian and Other groups -- 73.1% and 66.9%, respectively. For Blacks and Hispanics, natural increase played a much larger role in population gain. Only 57% of their population gain was due to migration. During 1990, natural increase accounted for approximately one-half of the region population growth. This trend, higher proportion of growth due to natural increase, will likely continue over the next few years.

Figure A1

Population Change by Ethnic Group 1980-1990, San Diego Region

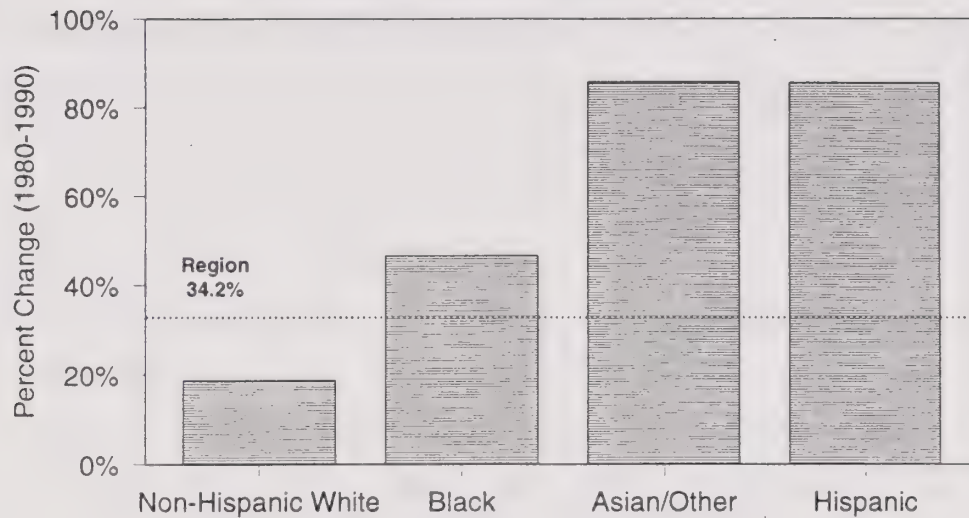
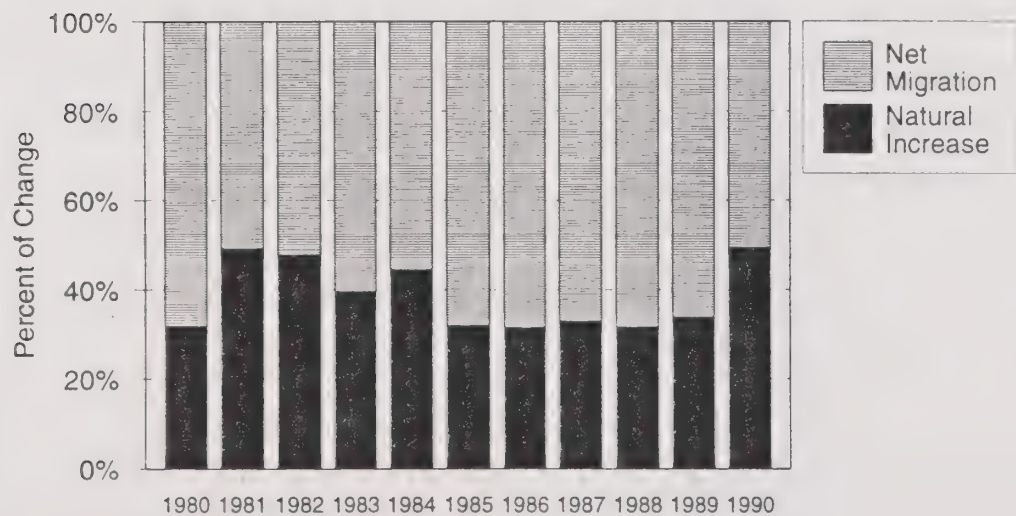


Figure A2

Components of Population Change 1980-1990, San Diego Region



Source: State Department of Finance

Employment

Between 1980 and 1990, employment growth in the San Diego region far out paced the growth in population. The decade recorded a net gain of more than 406,000 jobs, an increase of 48.4%. Total employment in 1990 was just under 1,247,000, including 134,000 uniformed military and 107,300 self-employed workers. Statewide employment increased 29%, and nationally it rose 17% over the same time period. Thus, local employment growth rose nearly three times faster than the nation and 50% faster than the state.

Over the decade, the rate of job growth has varied by industry. Finance, insurance and real estate (FIRE), construction and services all experienced average annual growth rates of more than six percent. Industries with growth rates significantly lower than the regional average included agriculture, government, and military. Manufacturing also grew slowly, though some sectors, such as printing and publishing and instruments, have risen faster than the region's average.

The region's labor force expanded faster than both population and employment, yet its unemployment rate fell over the decade to 4.5% from 6.8%. This is explained by rising labor force participation rates; that is, more of the population -- especially women -- ages 16 and above actively employed or searching for a job. When compared to other metro areas, San Diego ranks 16th out of 18 in labor force participation rate. Between 1980 and 1990, the number of working residents here increased to 66% from 61% of all residents over the age 16. The local unemployment rate during 1989 was 3.9%, providing the region with the sixth lowest unemployment rate for major metropolitan areas in the nation (Figure A4). Since 1989, however, economic conditions, nationally, statewide and locally, have deteriorated. Locally, during January 1992, the unemployment rate had risen to 6.8%, nationally it was 7.1%, and statewide it was 8.1% (Figure A3).

Figure A3

Unemployment Rate San Diego, California, United States 1980 through 1991

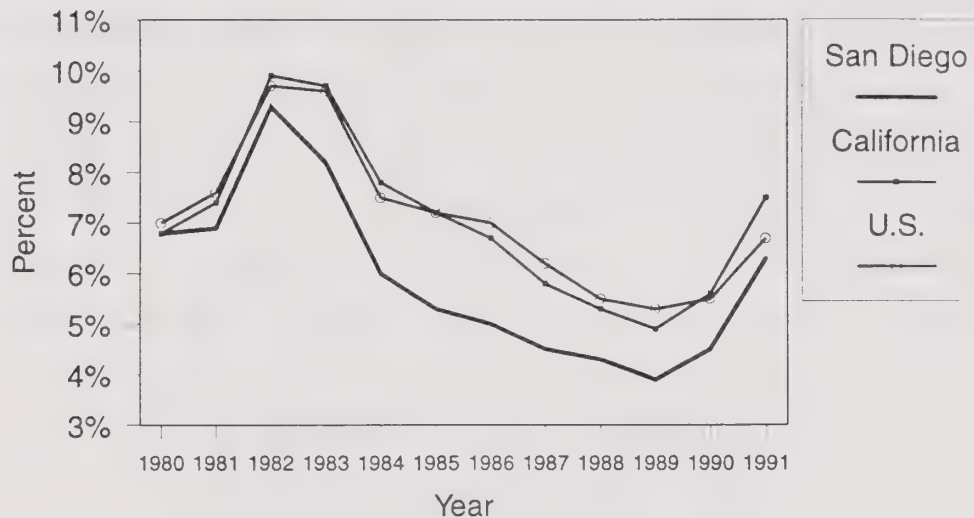
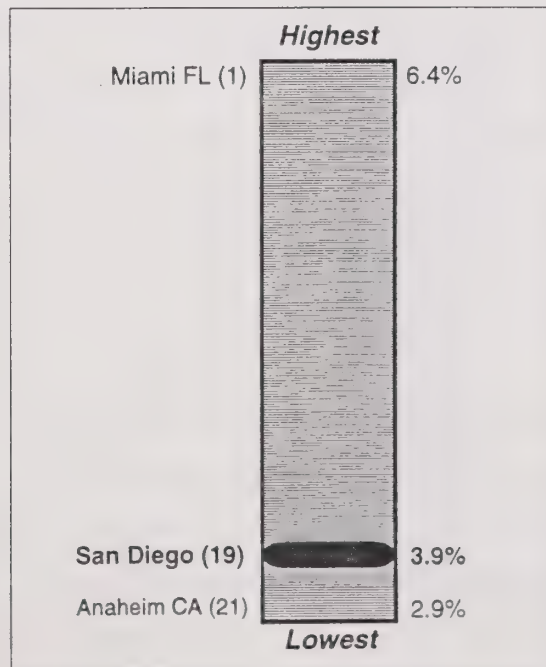


Figure A4

Unemployment Rate San Diego Region Compared to Twenty Selected Metro Regions (1989)



Sources: U.S. Department of Commerce, State and Metropolitan Area Data Book, 1991
U.S. Department of Labor, Bureau of Labor Statistics

Income and Earnings

The San Diego region continues to experience income and earnings rates of growth that are below the state and nation. This trend of flat earnings growth began in the late 1960s. Behind the trend was the decline in manufacturing employment as a proportion of total employment and relatively higher cost of living adjustments, reflecting higher inflation locally than recorded for the state or nation. In 1970, for example, local per capita income, measured in real 1990 dollars, was 15% higher than the state and 35% higher than the nation. The decade of the 1970s brought almost no change in real per capita income locally. During the 1980s, real per capita income growth was less than one-half of one percent per year, less than one-half the rate recorded at the state level and one-third the level recorded nationally. Also, during the 1980s, the nation's real per capita income rate of growth outpaced the statewide rate. During 1990, per capita income was estimated to be \$18,300 locally, \$19,600 statewide, and \$17,600 nationally (see Figure A5). When compared to other metro regions, the San Diego region ranks eighth out of 21 regions in terms of per capita income (see Figure A6).

Income Dynamics. One of the important issues in economic prosperity is the distribution of income. It is generally agreed that, from a life-cycle perspective, income distribution over time has become less equal. However, the usual proposal to use the tax system to redistribute income assumes that society is a fixed hierarchy, and that income transfers are necessary to ameliorate the condition of those stuck permanently at the bottom. Recent studies by the Urban Institute and U.S. Treasury's Office of Tax Analysis show that there is a great deal of movement between income categories. In addition, the studies indicate that a majority of those starting at the bottom of the income ladder, over a period of years, experience the highest rates of income growth which propels them up the income ladder.

The usual methodology to measure income distribution is to break down families or households into five groups of 20% each: the top, bottom and the three middle quintals. If the difference between top and bottom increases over a decade or so, incomes are becoming more unequal. This logic, however, assumes that the same people (families/ households) inhabit the same quintal in year 10 as in year one. This assumption has been recently tested and shown to be inaccurate. With social mobility, people move up the quintal ladder, and down.

Figure A5

Change in Per Capita Personal Income, (1980=100)

San Diego, California, United States

1980 through 1990

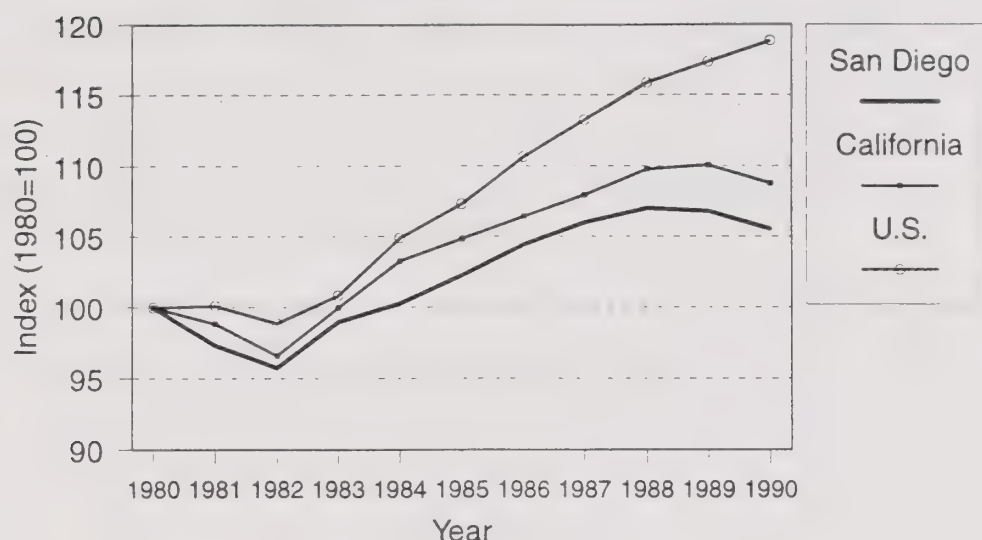
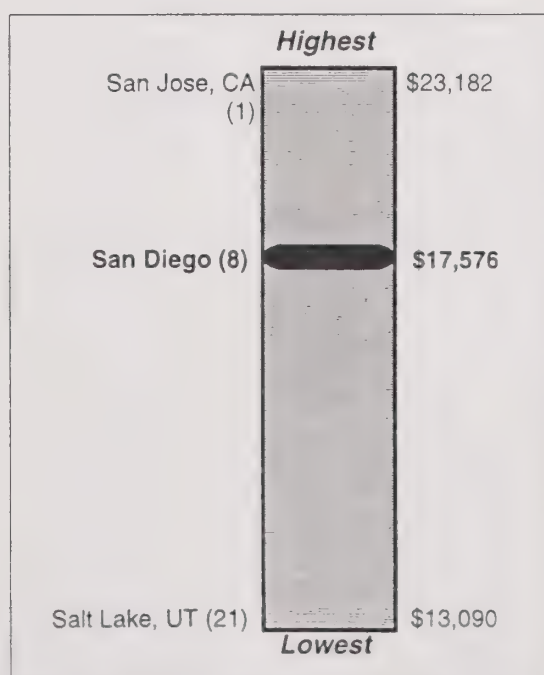


Figure A6

1988 Per Capita Income San Diego Region Compared to Twenty Selected Metro Regions



Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Places Rated Almanac (New York: Prentice Hall, 1989)

The Treasury study measures movement among the quintals. It picked 14,351 representative taxpayers and tracked their progress through the quintals between 1979 and 1988. In no quintal was turnover less than 33% during the decade. In the bottom three, at least 66% of the occupants changed quintals, generally trading up. Taxpayers were more likely to rise than fall by odds of nearly five to one, excluding people in the top quintal who had nowhere to go but down. Of those who started in the bottom quintal, 65% moved up at least two quintals during the decade. More of these poorest taxpayers made it all the way to the top quintal than stayed in the bottom.

The Urban Institute study was over a 20 year time horizon (1967-1986) and calculated the income gains of those who started out in each quintal. The table below shows the results for each income quintal over a ten-year period. Overall, incomes rose 18% between 1977 and 1986, adjusted for inflation. The percent gain in real income was the largest for those who began in the lowest quintal, rising 77%. The smallest rate of change was recorded at the top, rising 5%. Movement up the quintals was primarily accomplished by working, gaining experience and becoming more valuable to the economy. The Treasury found that wages and salary accounted for 88% of the total income of those who climbed from the bottom quintal to the top during the 1980s.

Incomes and Social Mobility
Average Family Income Changes, in 1991 dollars

1977 Quintal	1977 Income	1986 Income	Percent Gain
Bottom	\$15,853	\$27,998	77%
Second	\$31,340	\$43,041	37%
Third	\$43,297	\$51,796	20%
Fourth	\$57,486	\$63,314	10%
Top	\$92,531	\$97,140	5%

Note: Sample limited to adult, ages 25-54 in 1977.

Source: Urban Institute

Those just entering the labor force, however, are being paid less than those who entered 10 years ago. Over their working lives, these new entrants may not move up any faster and, as a result, lifetime incomes may turn out less equal. According to the Urban Institute, this is a result of technical innovation and international competition, which have put a high premium on education and experience.

These results show that new labor force entrants have the opportunity to move up the income ladder, and may not require the assistance of the tax system to redistribute income. Such tax policies, in fact, may undermine incentives and thus the economic growth that keeps movement among the income quintals fluid. Clearly, economic growth is necessary for those who enter the labor force at the bottom to move up the income ladder.

Earnings. When local wages per occupation, such as electricians, mechanics, truck drivers, janitors, secretaries, and computer operators, are compared, the region generally ranks below other metropolitan areas, especially for those cities on the west coast. The San Diego region also has a relatively high cost of living compared to other regions across the nation, except for those on the west coast, such as San Jose, Anaheim and Sacramento (Figures A7 and A8).

Earnings and income have not increased, especially during the 1970s and early 1980s, because of a relatively dynamic labor market, resulting in a continuous supply of new services being offered and keeping the market from becoming tight. Also, the flat earnings trend is due in part to the lack of high skilled, high paying job growth and substantial growth in low skilled service sector jobs, such as opportunities in retail, restaurant, health services, and hotel-motel establishments. As shown in Figure A7, the average annual salary for a service sector employee is less than that of a manufacturing employee. The average salary of a service sector job pays nearly 30% less than one in the manufacturing sector. With the recent and substantial decline in manufacturing employment locally, earnings and income for workers in this region may lose more ground to workers in regions outside of California.

Figure A7

Average Annual Salary by Employment Sector

San Diego Region (1989 preliminary)

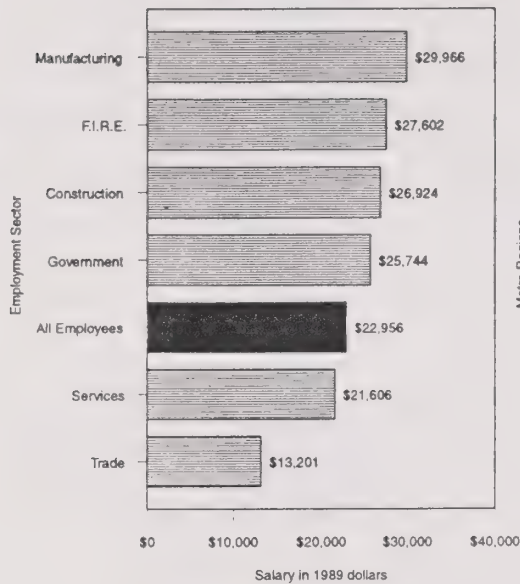


Figure A8

Average Annual Pay

All Employees (1989 preliminary)

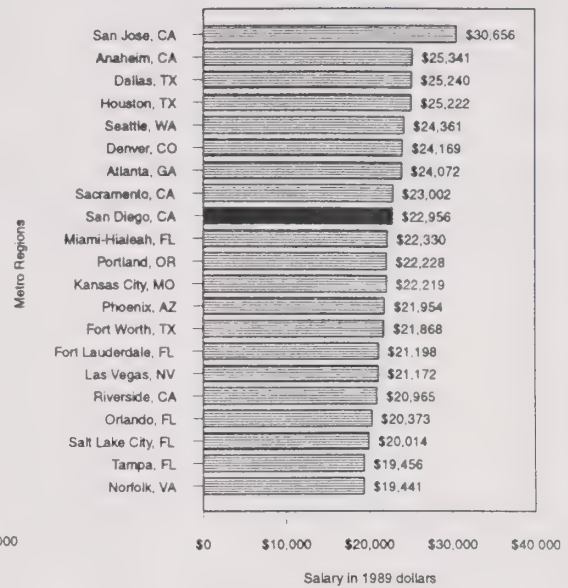
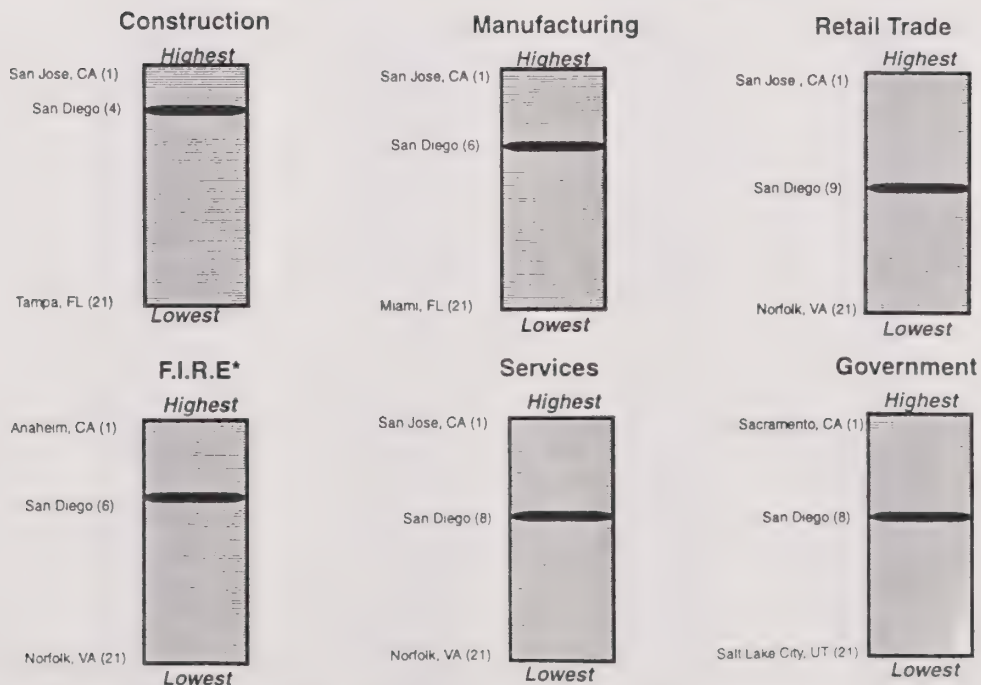


Figure A9

Average Annual Pay by Employment Sector

San Diego Region Compared to Twenty Selected Metro Areas



Source: U.S. Department of Commerce; State and Metro Area Databook, 1991

Cost of Living

The rate of change in San Diego's consumer price index, a measure of an area's rate of inflation or rate of change in the cost of living, was the highest of the Metro-regions between 1982 and 1990 (Figure A11). The San Diego region's consumer price index rose 40.3% between 1982 and 1990. The rate of change for San Diego in the components that comprise the consumer price index was the highest or near the top in each category except for gas and electric. Compared to the other metro regions, the rate of change in the price of electricity was the lowest locally (Figure A12).

Locally, the largest increases in the price index components were recorded in medical care (78%), public transportation (65%), and shelter (57%). The indexed price level for gas fell 23% and for electricity it was 11.7% lower than the price recorded in 1982. The greater the rate of increase in the consumer price index, however, does not necessarily indicate a higher cost of living. It does show the change or comparison of living costs from year to year (Figure A10).

Figure A10
Change in Consumer Price Index Components

San Diego Region, (1982-84 average) through 1990

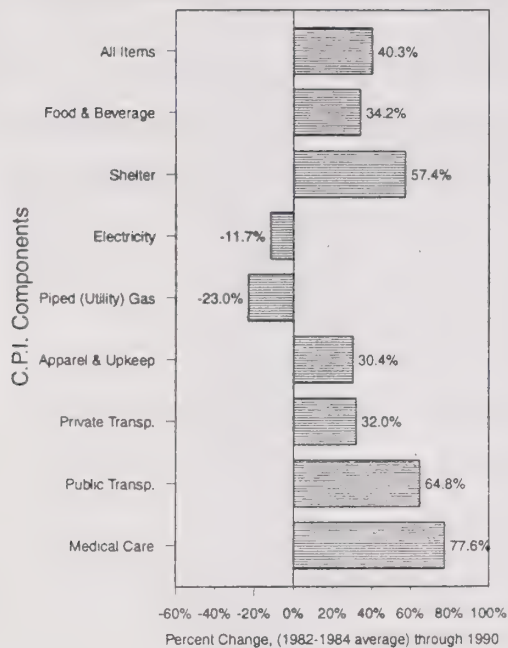


Figure A11
Change in Consumer Price Index

All Metro Regions, (1982-84 average) through 1990

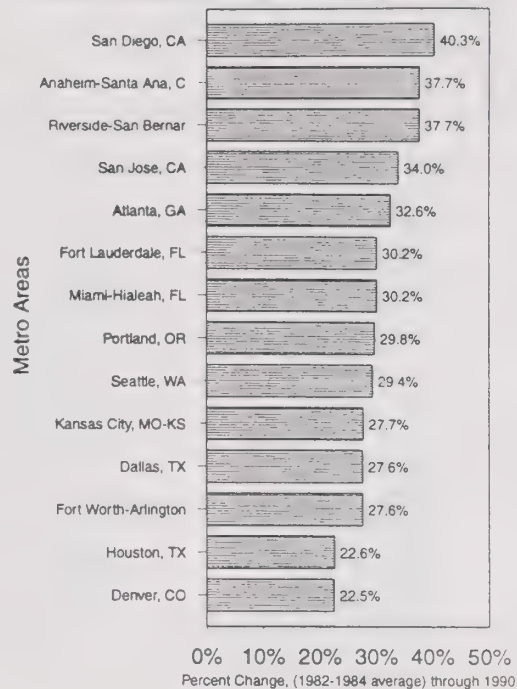
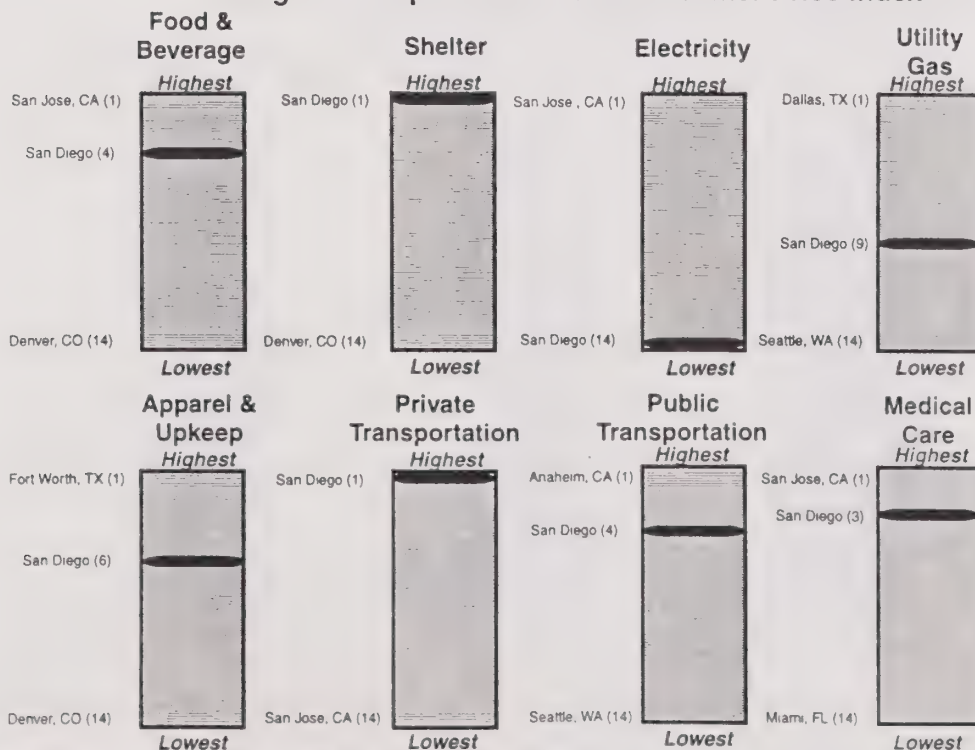


Figure A12

Change in Components of the Consumer Price Index



Source: Places Rated Almanac (New York: Prentice Hall, 1989)

Social and Cultural Conditions

This category presents a mixed picture of life in the San Diego region (Figure A13). When social indicators -- such as infant mortality, teenage pregnancy, and access to recreational facilities -- are compared to the state, nation and other regions, San Diego is rated well above the average. On the other hand --in terms of crime rate, access to cultural facilities, births to unmarried women, and the general high cost of living, especially housing -- the region ranks well below comparable information for the nation and other regions (not the state).

A large portion of the local economy is focused toward servicing the tourism industry. San Diego ranks eighth compared to 21 other metro regions in terms of recreational facilities.

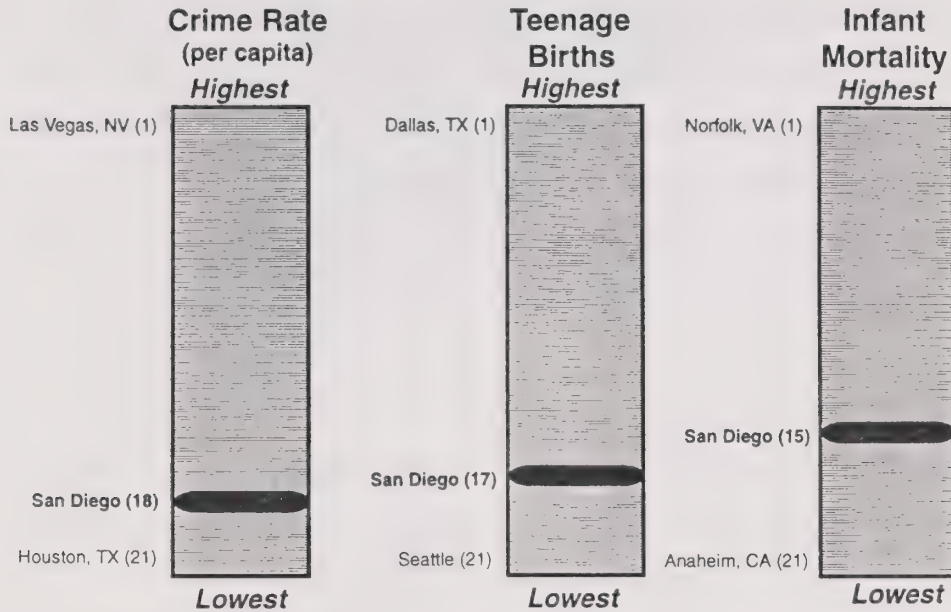
The number of births to unmarried women locally rose at a rate that exceeded the rate of growth for all births. In 1989, 28% of all births locally were to unmarried women, compared to 17% in 1980.

The San Diego region fares worse than the state, the nation and many other major metropolitan areas in its crime rate of 7.2 crimes committed per 100 persons. The region's crime rate is 25% above the nation's, and nearly 10% above the state's rate.

Figure A13

Social and Cultural Conditions

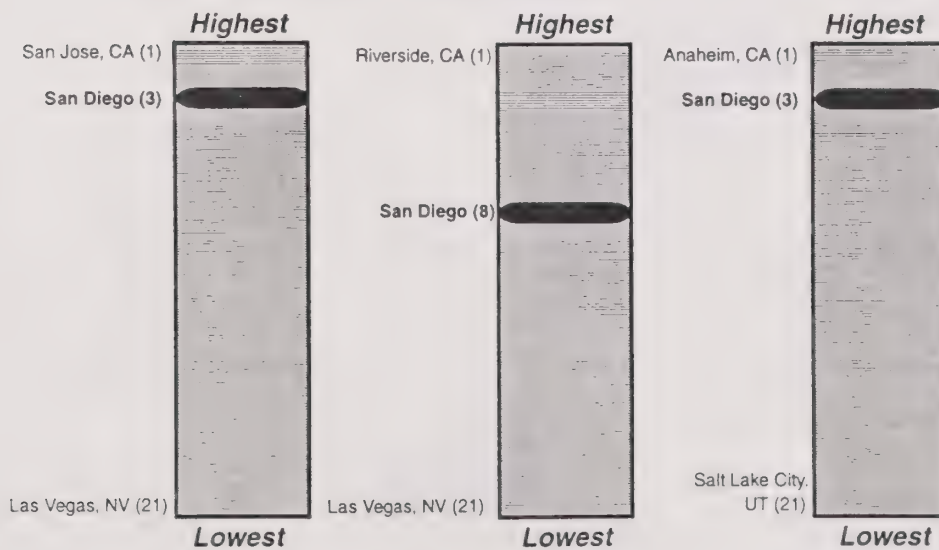
San Diego Region Compared to Twenty Selected Metro Regions



Cultural Facilities

Recreational Facilities

Housing Costs



Source: Places Rated Almanac (New York: Prentice Hall, 1989)

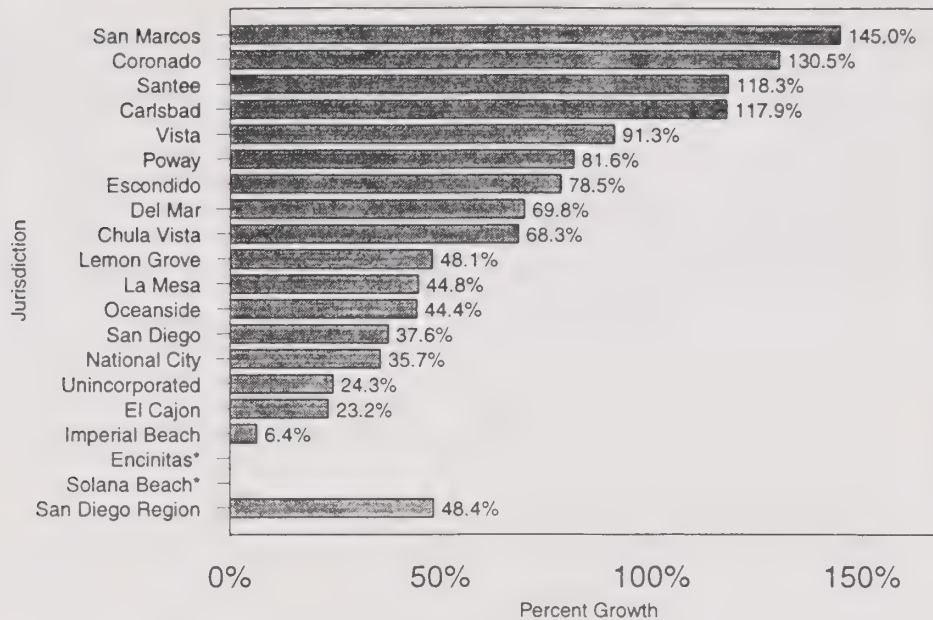
Intra-Regional Disparities

The size, characteristics and diversity of the communities that make up the City of San Diego put it into a position to dominate the comparative discussion. However, it is important to note that the City of San Diego does not compare with the other cities and communities within the region the way many comparably sized cities in other regions compare. For example, many central cities are plagued with higher rates of poverty, infant mortality, crime and lower per capita incomes than their surrounding suburb communities. As shown below, this is not necessarily true for the City of San Diego, defined here as the region's central city.

Total employment in the San Diego region grew rapidly during the 1980s, rising 48.4%. Employment growth in the City of San Diego rose slower than the region, rising 37.6%. As shown in Figure A14, the City with the largest percent gain was San Marcos, up nearly 145% or 15,000 jobs. Rapid employment growth was also recorded in Carlsbad and Santee. Coronado's employment increase of 131 percent was due to the 1987 annexation of North Island. Imperial Beach showed the smallest increase in employment, 6.4% or 231 jobs. The City of San Diego gained the most jobs, rising 188,000 over the 1980 level. This rise provided the City of San Diego with ability to maintain its dominant share of employment: 55.2% of the region's total employment, compared to 44.5% of the total population located in the City of San Diego. In only three industries does the City of San Diego contain less than half of that industry's total employment: retail trade, construction, and agriculture.

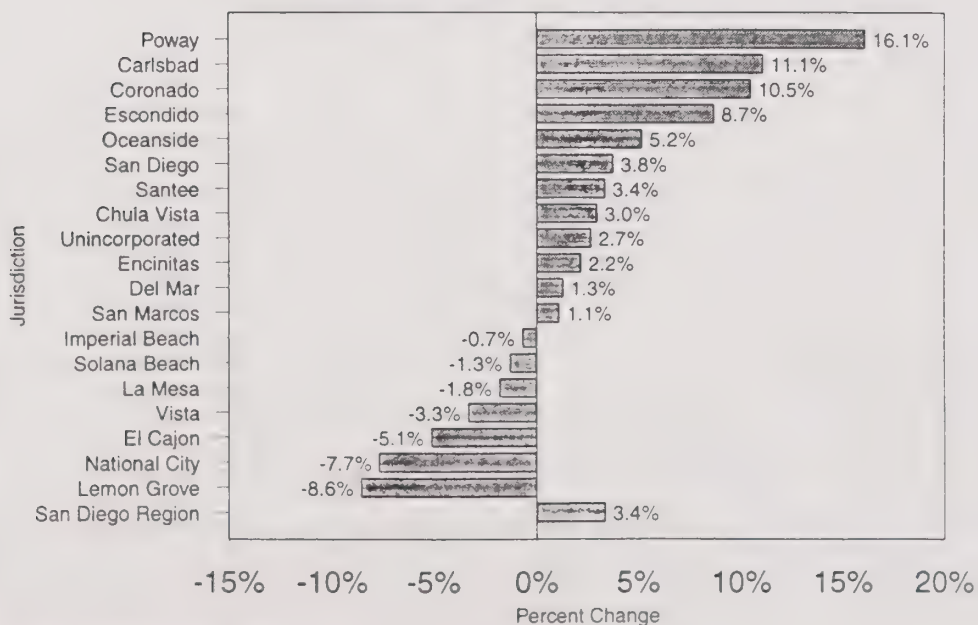
Median household income between 1980 and 1990 grew more rapidly in the City of San Diego than in the region as a whole (3.8% vs. 3.4%). In 1990, the City of Poway's median household income of \$53,286 was the highest of any jurisdiction in the region, and 57% above the region's median of \$34,000. National City had the lowest median income in 1990. Its \$20,761 was almost 16 percent less than the second lowest, Imperial Beach, and 61 percent less than Poway (see Figure A15).

Figure A14
Employment Growth by Jurisdiction
 Percent Change, 1980-1990



*Encinitas and Solana Beach were not incorporated in 1980.

Figure A15
Median Household Income by Jurisdiction
 Percent Change, 1980-1990



Source: Bureau of the Census

2: Business Vitality

In considering the vitality of businesses in the San Diego region, the focus is on how existing businesses and new businesses are faring. This focus addresses the realization that most of a region's business growth comes from "home grown" entrepreneurs and businesses, not from outsiders. Between 75% and 80% of net new employment growth comes from new business startups and on-site expansions of existing businesses, and more than half of all new jobs are produced by independent businesses less than 5 years old.

Two main categories were used to evaluate business vitality in the region:

- ♦ Existing Business Trends -- how strong are the region's businesses through measures such as manufacturing productivity, changes in employment of existing businesses, business closings, level of retail sales, office and industrial vacancy rates, number of Fortune 500 headquarters and level of dependency upon the Federal government. Also included in this section is information on the growing importance of international trade.
- ♦ Entrepreneurial Activity -- the trends in new business formation and growth through measures of new company formation rates, percent of fast growth new businesses, level of new business job creation, and the percent of women and minority entrepreneurs.

Business Trends

Over the course of the 1980s, the region's economic base has continued to shift away from manufacturing and toward services. Manufacturing's share of total employment has fallen to 11.5% in 1990, from 13.1% in 1980. This sector peaked in the 1960s at 30% of total employment. Services, on the other hand, rose to 25.4% of total employment from 20.5%. Also, manufacturing sector activity declined as a share of total earnings, to 21% in 1989 from 26% in 1980. At the same time, the share of total earnings in the service sector rose to 32% from 25% over the same time period. None of the other industries increased its proportion of total employment to the extent recorded for services; at the same time, employment in government

and the number of local uniformed military personnel declined as much or more, as a percent of total employment, than the manufacturing sector.

What is of interest is the performance of specific types of businesses within the San Diego region compared to performance nationally. San Diego's major sectors -- those that employed at least 1 percent of all workers in the region -- generally grew in employment at a rate faster than the national average during the past decade (see Figure A16). Within the local manufacturing sector, instruments and related products -- especially the production of medical instruments -- experienced employment and payroll growth that were nearly double the national rate. Employment growth in business services was nearly double the national rate. Within business services, the most rapidly growing areas locally were computer and data processing services, research and development labs, and management and public relations.

While the overall performance of San Diego's major sectors is impressive, a few sectors either did not live up to initial expectations or fell below the national average -- such as transportation equipment and communications. Also, the San Diego region has only one Fortune 500 company headquartered here, and it possesses a high dependency upon federal government activity. These indicators suggest a vulnerability for the region because of its dependency upon decisions made by managers -- whether in business or government -- who do not live in the area.

Figure A16
San Diego Region Compared to United States

Major SIC Divisions Major Activity Groups*	Annual Percent Change 1980–89	
	San Diego	United States
<u>Agriculture, Forestry, and Fishing</u>		
Agricultural Services	8.9%	8.7%
<u>Construction</u>		
Special Trade	10.3%	3.3%
General Contractors	6.1%	0.3%
<u>Manufacturing</u>		
Instruments and Related Products	14.4%	6.2%
Printing and Publishing	7.1%	2.5%
Industrial Machinery	0.6%	–2.3%
Transportation Equipment	–0.5%	–0.0%
<u>Transportation and Public Utilities</u>		
Electric, Gas and Sanitary Services	–2.4%	1.6%
Communication	–0.7%	–0.5%
<u>Wholesale and Retail Trade</u>		
Building Materials/Garden Supplies	9.7%	3.4%
Auto Repair, Service and Parking	8.1%	5.6%
Apparel and Accessory Stores	8.0%	2.6%
Eating and Drinking Places	7.2%	4.4%
Food Stores	6.7%	3.9%
Wholesale Trade—Nondurable Goods	6.2%	2.0%
Furniture and Home Furnishings	5.6%	3.0%
Wholesale Trade—Durable Goods	4.7%	2.0%
Automotive Dealers/Service Stations	4.1%	2.4%
Miscellaneous Retail	3.6%	2.7%
General Merchandise Stores	3.1%	0.7%
Electronic Equipment	1.2%	–2.3%
<u>Finance, Insurance, and Real Estate</u>		
Depository Institutions	10.2%	4.0%
Real Estate	7.7%	3.8%
Insurance Carriers	7.2%	1.4%
Nondepository Institutions	–1.9%	–1.9%
<u>Services</u>		
Engineering and Management Services	21.6%	17.5%
Legal Services	16.4%	8.6%
Educational Services	14.0%	4.1%
Business Services	11.7%	6.5%
Health Services	11.3%	6.7%
Membership Organizations	7.0%	5.7%
Hotels and Other Lodging Places	5.6%	3.9%
Social Services	5.5%	6.6%
Amusement and Recreation	4.3%	3.9%
Personal Services	3.5%	2.2%
Total activity groups listed*	6.2%	3.2%
Total private wage and salary	6.4%	2.9%

*Activity groups which represent more than 1/2 percent of total 1989 employment in San Diego are presented in this table.

Department of Defense and Aerospace Downturn

Aerospace employment in the United States is concentrated in the western 9 states, and of these states, Washington and California employ the most aerospace workers. During the 1991 recession, employment in this industry dropped 9 percent, and currently accounts for 44% of the total U.S. aerospace employment. The primary reason for this downturn is the end of the military buildup that lasted through most of the 1980s. Between fiscal year (FY) 1985, when the value of prime contract awards issued by the Department of Defense (DOD) peaked, and FY 1990, the latest year for which complete data are available, the value of these awards nationally fell 33% on an inflation adjusted basis. The decline was even more dramatic in California, reaching 35%. This decline in prime contracts has translated into 33,000 fewer aerospace jobs in the state between January 1990 and June 1991. Also, this decline represents 94% of all aerospace job loss in the western 9 states.

Contract defense work is more important to California's aerospace industry than it is to the state of Washington, which also employs a large number of aerospace workers. During each year of the 1980s, the average value of DOD prime contract awards received per aerospace worker was two and a half times larger for California than for Washington. For example, during FY 1982, Washington's aerospace industry received an average of \$37,600 in DOD prime contract awards for each aerospace worker, while in California the industry received an average of \$110,700 in contract awards for each worker. As these figures suggest, California has been vulnerable to federal defense cutbacks; more vulnerable than their counterparts in Washington, whose aerospace workers are employed in commercial aircraft production.

Declines in aerospace employment, both in California and Washington, are not new. This is the third sustained period of falling aerospace employment since 1971. A national recession and the end of the war in Vietnam combined to make the mid-1970s a period of substantial job loss in the aerospace industry. The combination of civilian and defense problems led to job losses of 20% in Washington and 17% in California (California has lost 13% of its aerospace jobs in the recent recession and DOD expenditure cutback). The aerospace downturn in the early 1980s hit commercial aircraft producers very hard. On an inflation adjusted basis, the value of sales of commercial aircraft fell 54% between 1980 and 1984. Meanwhile, the defense buildup of the

1980s was beginning, insulating defense contract production from the recession. The inflation adjusted value of contract defense awards rose by 54% between FYs 1980 and 1984. Largely because of the overwhelmingly commercial orientation of the downturn in the early 1980s, aerospace employment in Washington plunged by 23%, whereas California lost a relatively modest 6% of its aerospace jobs.

Since the defense side of the business is in worse shape than the commercial side, California's industry is suffering significant job losses, whereas aerospace employment in Washington is relatively stable. In San Diego, the aerospace industry employed 44% of the total manufacturing industry in January 1990. The national recession and cutbacks in DOD contract awards have reduced the number of local aerospace jobs by 13%, equaling the proportion of jobs lost statewide. Because of the importance of aerospace employment to the region's manufacturing base, two key issues locally are: the magnitude of any additional DOD contract cutbacks and an assessment of whether these job losses are secular or cyclical (permanent or temporary). At this point, additional cutbacks in DOD contract expenditures are expected to occur in the near future (mid-1990s) and there is a growing realization that the DOD-dependent aerospace jobs that have been lost are permanent job losses.

Business Bankruptcies-Licenses

Locally, bankruptcies are reported for San Diego and Imperial Counties, combined. Since 1980, the number of bankruptcies filed each year has risen with increased business activity, with the exception of 1984, when they declined by over 7%. During 1991, there were 14,775 bankruptcies filed. This rise was 28.6% greater than 1990 and the highest ever recorded in the region.

Another indicator of business trends is the number of new business licenses issued each year. Although, the available data is only for the City of San Diego, the information should reflect the trends within the region. The number of new business licenses issued by the City of San Diego during 1991 declined 27% from 1990. There were 11,408 licenses issued during 1991, the lowest number issued in the past eleven years and 27% below the average number issued each year since 1980.

Retail Sales

Real per capita retail sales for the San Diego region were below those recorded for the state during most of the 1980s (see Figure A17). San Diego growth in per capita retail sales lagged behind the nation and the state each year between 1980 and 1990. The 1990 retail sales per capita A18the region near the lowest when compared with other regions across the nation (Figure 14b). Retail sales are considered a barometer of economic health because they account for nearly one-third of the region's total economic activity and are an indication of consumer confidence. The recession and waning consumer confidence combined to cause the region's retail sales to fall 5.3% during 1990, after adjusting for inflation. More importantly, after adjusting for inflation, the value of per capita retail sales was greater in 1980 than in 1990 for both the state as a whole (down 3%) and the San Diego region (down 1%). This trend is not true for the nation, where real per capita retail sales rose over the same time period (up 8%).

International Trade

Over the 1980 to 1991 time period, the total dollar value of United States export and import trade grew from an estimated \$465 billion in 1980 to \$905 billion by 1991, an average annual rate of about 6.9 percent. Most of this rapid growth took place in the latter half of the 1980s, when the average annual growth rate from 1985 to 1991 was over twice as high as it was over the 1980 to 1985 time period. Since 1986, exports have accounted for more than 40 percent of the growth in the nation's Gross Domestic Product, the value of all goods and services produced in the U.S. In 1990, the latest year for which information is available, U.S. exports grew by 8.3 percent and accounted for more than 90 percent of the growth in the U.S. economy. One in six jobs in the manufacturing sector nationally is directly or indirectly supported by export activity.

Figure A17

Per Capita Retail Sales San Diego, California, United States in 1990 Dollars, 1980 through 1990

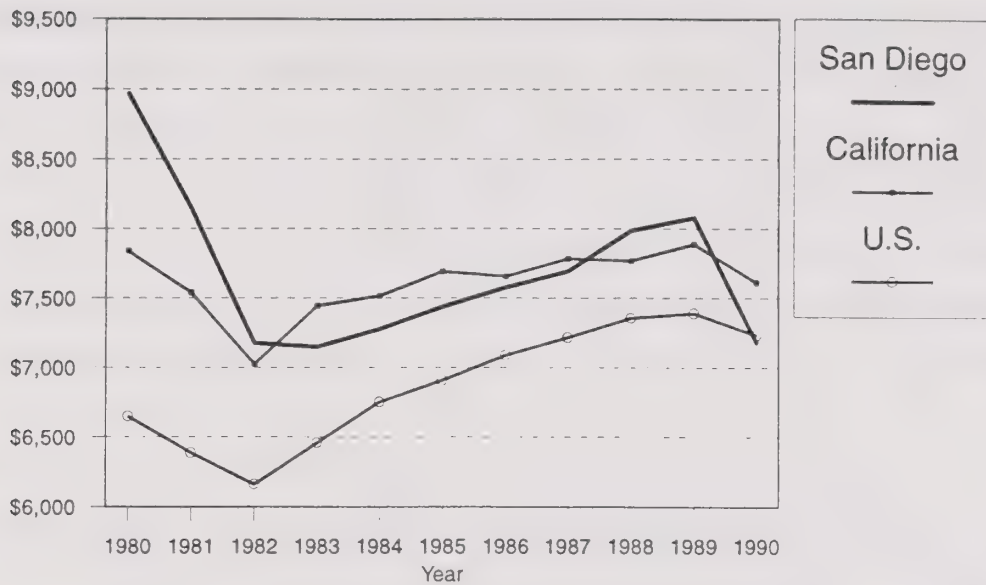
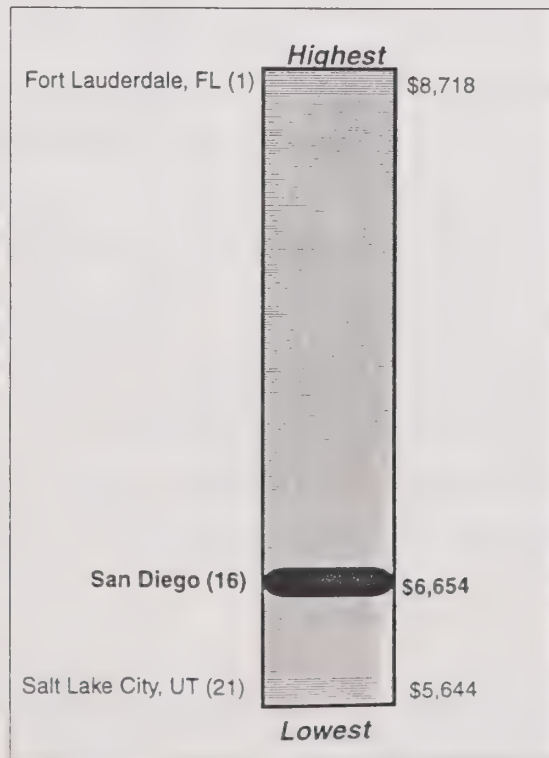


Figure A18

Per Capita Retail Sales San Diego Region Compared to Twenty Selected Metro Regions (1989)



Sources: U.S. Department of Commerce, State and Metropolitan Area Data Book, 1991

The growing interdependence of world markets, or globalization, is reflected in international information flows and financial transactions. Between 1977 and 1987, telephone calls to and from the United States, the vast majority for business purposes, increased from 300 million minutes to nearly 5 billion minutes, a rise of over 1,000 percent. Since the early 1980s, international financial markets have changed. Japan has replaced the United States as the largest supplier of international capital. Japanese, German, and Dutch banks have now become the chief underwriters of U.S. Treasury bonds and financiers of large commercial real estate projects in the U.S. and around the world. During 1990, the daily volume of foreign exchange trading exceeded \$600 billion.

One of the most important factors in the globalization process has been the dramatic rise of global component sourcing. Nearly a decade ago, Ford introduced the "world" car, assembled in Detroit from parts produced on each of the inhabited continents. Today, global sourcing is commonplace. A personal computer assembled in California is likely to contain integrated circuits imported from Japan, a power supply from Singapore, microprocessors from Korea, disk drives from Malaysia, and a glass screen from Taiwan.

International trade is considered an important contributor to the local economy. During 1986, the results of a Department of Commerce survey on the point of origin of exports showed the value of exports originating within the San Diego region during the first quarter of the year to be \$1.2 billion. Our largest trading partners were Mexico (31%), Asia (31%), Europe (26%), Canada (7%), and South America (and others, 5%). This survey identified our most important trade industries, measured by the exported product's value to total exports: electrical and electronic machinery (28%), non-electrical machinery (24%), scientific instruments (13%), and transportation equipment (5%). Locally, these four industrial sectors account for 60 percent of total manufacturing. Statewide, these industries export between 51 and 88 percent of their products by air.

Entrepreneurial Activity

Small Businesses. One way to measure entrepreneurial activity is to evaluate the role of small business in the region. Nationally, small businesses play a significant role in economic activity by providing two of every three new jobs, accounting for 39% of the gross domestic product, 42% of all sales, and employing 47% of the private work force. Although no universal definition of small business exists, generally the size of the business -- measured by employment, assets, or receipts -- is used to classify it. In 1990, San Diego County had 54,560 private businesses; of this number, 95% had fewer than 50 employees, and 61% reported having between 0 and 4 employees. San Diego's growth of small businesses significantly outpaced California's over the past decade, and California has outpaced the nation. Since 1982, San Diego has experienced a 55.2% increase in small businesses, compared with a gain of 38.2% for the state. Business magazines, ranking the performance of small companies, show California's small businesses performing well. With only 12% of the nation's population, small businesses in California were able to accomplish the following:

- ♦ California possesses 31% of the fastest growing small public companies and 17% of the fastest growing private companies.
- ♦ Based upon the most recent three years' growth in sales, earnings and return on capital, California possesses 22% of the nation's best small companies.
- ♦ Based upon the highest 5-year return on equity, California has 22% of the nation's best small businesses.

The recent recession has had a dampening effect on businesses, as indicated by rising bankruptcies and fewer new business licenses being issued. Also, the number of new incorporation's nationally fell by 4.3% during 1990. For the state, new incorporation's declined by nearly 19% during 1990.

Bio-tech Industry. San Diego ranks as a top "bio-tech" area. The region has been described as the Silicon Valley of the burgeoning bio-tech industry. Drawing from the rich base of local

research institutions, San Diego is now considered one of three top bio-tech centers in the nation. The number of bio-tech companies has grown from 5 in 1978 to over 72 in 1989; nearly one-third of these companies were formed in the last three years. There are an estimated 6,000 persons employed in the bio-tech firms and nonprofit research and development organizations that make up this industry. San Diego's success in this area may not yet have been fully achieved. Most of these businesses are fledgling bio-tech firms, which have not yet brought their products to market. San Diego's ability to retain the future manufacturing facilities for these companies will determine how successful we are in taking full advantage of this opportunity.

Franchise Activity. The rise in importance and success of "Franchising" as a form of new business trend provides another measure of entrepreneurial activity. Franchises represent 20 percent of the gross domestic product and employ over 8 million people in 60 different industries nationwide. A new franchise opens every 17 minutes in the United States; sales of goods and services provided by franchises increased 118% between 1981 and 1990, to \$759 billion, and currently account for about one-third of all retail sales in the country. California and New York lead the nation in franchise activity. San Diego is the headquarters for 19 of the top 500 franchises. San Diego-based Coverall, Jazzercise, and Mail Boxes Etc. ranked in the top twenty.

Minority Businesses. Both women and minority entrepreneurship are critical indicators of whether equity in regional economic performance is or can be achieved. In addition, according to the ethnic population projections for San Diego, minorities are the most rapidly increasing portion of our population. Minorities thus represent a majority of the growth in San Diego's future labor force. Also, women are producing new businesses at a much higher rate than men. These groups are a critical source of future new business development.

The San Diego region has a representative share of Black, Hispanic and Women-owned businesses, based upon the proportion of each group in the local population (see Figures A19, A20). In 1987, there were 2,481 firms in San Diego County owned by Black business men and women. Sales and receipts from these businesses totaled \$105 million. San Diego accounted for 5.2% of California's Black-owned businesses and 0.6% of the nation's. In comparison, San

Diego's Black population represented 7.2% of Blacks in California and 0.5% in the nation. An area of concern, however, is the relationship between receipts and the number of firms owned by Blacks. Nationally, for example, Blacks own 3% of the firms but generate 1% of the gross receipts.

Locally, there were 10,373 firms owned by Hispanic business men and women in 1987. These businesses reported \$559 million in annual sales. Nationally, this ranked San Diego County fifth in number of firms and eighth in annual sales. The rate of increase for all Hispanic-owned business in the U.S. was nearly six times greater than the growth for all businesses. This growth far outpaced the national increase in Hispanic population as well, which increased 53% between 1980 and 1990. Nationally, Hispanic-owned firms account for 3.1% of all firms, but make up 9% of the population. San Diego accounted for 2.5% of all Hispanic-owned businesses in the U.S., and 7.9% of California. The Hispanic population of the San Diego region, by comparison, made up 2.3% of the nation's Hispanic population and 6.7% of California's. Also, as with Black business owners, there is concern about the relationship between receipts and the number of firms owned by Hispanics. Nationally, Hispanic-owned firms account for 1.2% of receipts and own 3.1% of the firms.

A considerable number of businesses in the San Diego area are owned by women, with sales totaling \$2.2 billion in 1987. The region ranked sixth in the nation in number of women-owned firms. San Diego accounted for 8.5% of California's women-owned firms and 1.1% of the nation's.

Figure A19
Minority Owned Businesses
 San Diego Region Compared to Twenty Selected Metro Regions

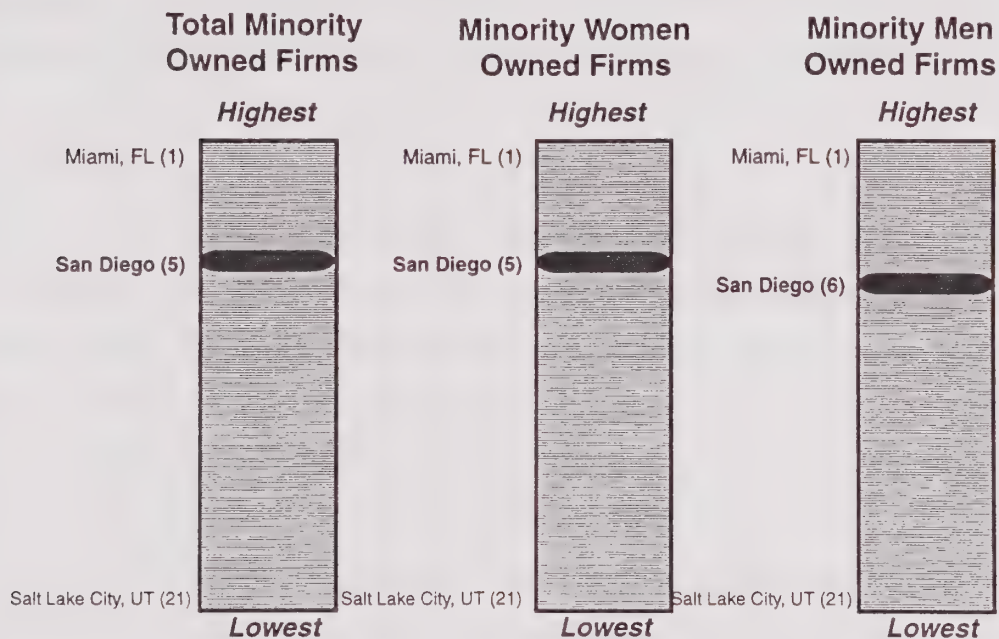
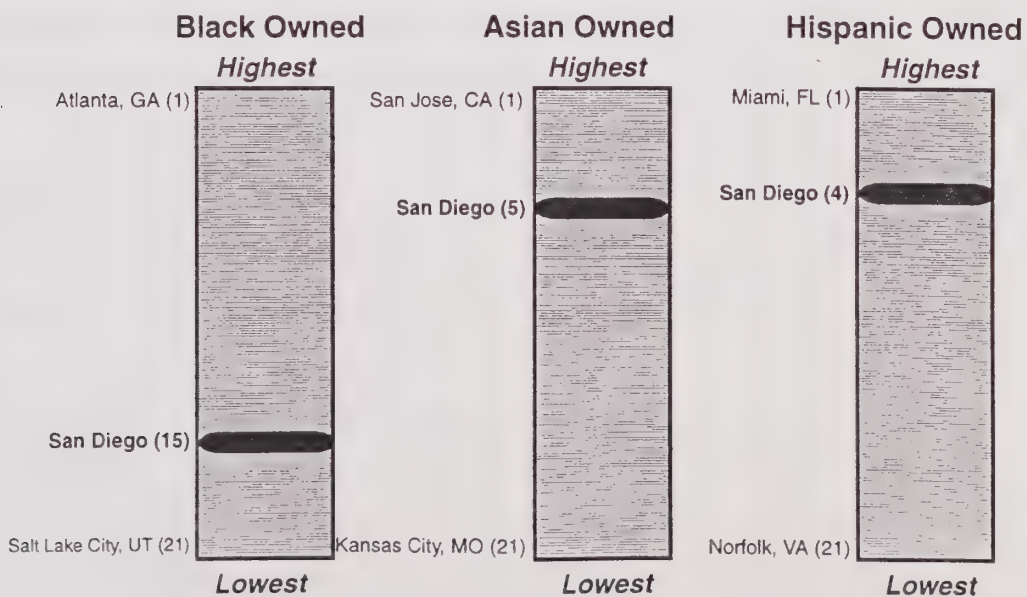


Figure A20
Minority Owned Businesses (Per Capita)
 San Diego Region Compared to Twenty Selected Metro Regions



3: Economic Development Capacity

The development capacity measures are intended to provide a look to the future -- how the community may fare in the years to come. An effort is made to evaluate the quality of critical resource capacities that people and businesses in the San Diego region will draw upon for advancement and growth.

- ♦ Human and Technology Resources -- the level of education attainment and skills of workers in the region, along with the technology capacity in the region which is closely related to the skills of the region's residents. Measures include level of high school attainment, level of college attainment, the percent of professional and technical workers, and level of research and development spending.
- ♦ Financial Resources -- the ability of commercial banks headquartered in the region to serve the business community, measured by examining the level of deposits, aggressiveness of the lending activity, and level of commercial and industrial activity.
- ♦ Housing Resources -- the affordability and quality of housing in the region. Measures include median price of a single-family home, rental rates for a two-bedroom apartment, rate of home ownership, age of housing stock, and extent of overcrowding.
- ♦ Health Resources -- the availability and breadth of medical services in the region, measured by examining the number of general family practitioners per capita, number of medical specialists per capita, hospital beds per capita and, breadth of services offered by area hospitals.
- ♦ Family Conditions -- indicators of the health of family units within the community, measured by examining household composition, welfare rates, and status of children.

Human Resources

San Diego has been following state and national trends in both the percent of adults that have completed high school and those that have completed college. Across the nation, the percent of the population age 25 and older that had completed high school or more rose to 76.9% in 1989, from 66.5% in 1980. In 1980, San Diego's high school completion rate was 78.1%, twelve percentage points higher than the national completion rate. The local college completion rate in 1980 was also higher than the nation's, although the difference was much less, 17.3% compared to 16.2%.

One disturbing finding is the relatively higher 1990 status high school dropout rate locally (18.2%), compared with the national rate (12.1%). Part of the reason for local dropout rates being higher than the national average may be connected to the relatively higher status dropout rates for Hispanics. Nationally, status dropout rates have been declining for Blacks and Whites, but not for Hispanics. In the west region of the United States (including California), Hispanic status dropout rates during 1990 rose to nearly 40%, compared to an overall dropout rate for the west region of nearly 15%. This trend, if it continues, may prove to be very costly, especially in light of the high rate of growth expected for the Hispanic population over the next 20 years.

The San Diego region ranks second highest of the 20 comparable metro regions for the number and type of educational facilities (see Figure A21). These institutions have been partly responsible for the growth and development of this region into a major center for research, especially in the fields of biotechnology and health science. In addition to the well-known public institutions, there are more than two hundred private firms conducting research and development programs. The region ranks fourth in the country in the concentration of high technology industries.

Financial Resources

Compared to other regions examined, for commercial bank deposits per capita as well as the number of banking institutions per capita, the San Diego region stands in the middle of the pack (see Figure A13). However, recent evidence from the Twelfth Federal Reserve District points to a worsening of bank problems in California. In most of the District's nine states, except

California and Arizona, the banking industry finished 1991 with a strong fourth quarter, reporting robust earnings for the year and little deterioration in asset quality. In California, however, problem loans have been rising for more than a year. California banks finished the year with a huge loss in the fourth quarter, their second consecutive quarterly loss. This occurred at a time when, nationally, asset quality and earnings appear to be stabilizing. California banking industry earnings plummeted as problem real estate assets grew worse and loan loss provisions soared. In California, 25% of all banks reported losses for the year, up from 12 percent in 1990. Nationally, only 10.8% of U.S. banks recorded losses for the year.

Housing

The San Diego region ranked third highest in housing cost among the 20 metro regions (see Figure A21). During 1989, the median price of a house in San Diego was 79% above the national average. In addition, the median cost of utilities was 24% above the national average (despite the recent decline), and property taxes were 63% above the national average.

The average price of a house in San Diego reached \$233,300 during 1990, a rise of over 100% in 10 years. The average price of a house locally was 60% higher than the national average in 1980. During 1990, the average price of a house locally was 97% higher than the national average. Locally, incomes have not kept up with home price increases. Over at least the past five years, San Diego has been one of the five least affordable housing markets. During 1990, 83% of the households locally could not afford to purchase a median-priced home in San Diego. The proportion of the region's households that live in owner-occupied units fell between 1980 and 1990, and currently San Diego ranks fourth lowest of nearly 80 metro areas.

Family Conditions

When compared to the other 20 major metro regions, family conditions in San Diego consistently ranked high. The San Diego region's infant mortality rate of 9.4 (per 1,000 births) ranks 15th; its share of births to teenage women ranks 17th.

The trend for single parent-headed households in San Diego since 1980 has been increasing at a much faster rate than the traditional married-couple households. Overall, the number of

households increased by 32.3% between 1980 and 1990. Single parent-headed households increased 56%, led by a dramatic 136% rise in single male-headed households. Single-parent households represent 15% of total households.

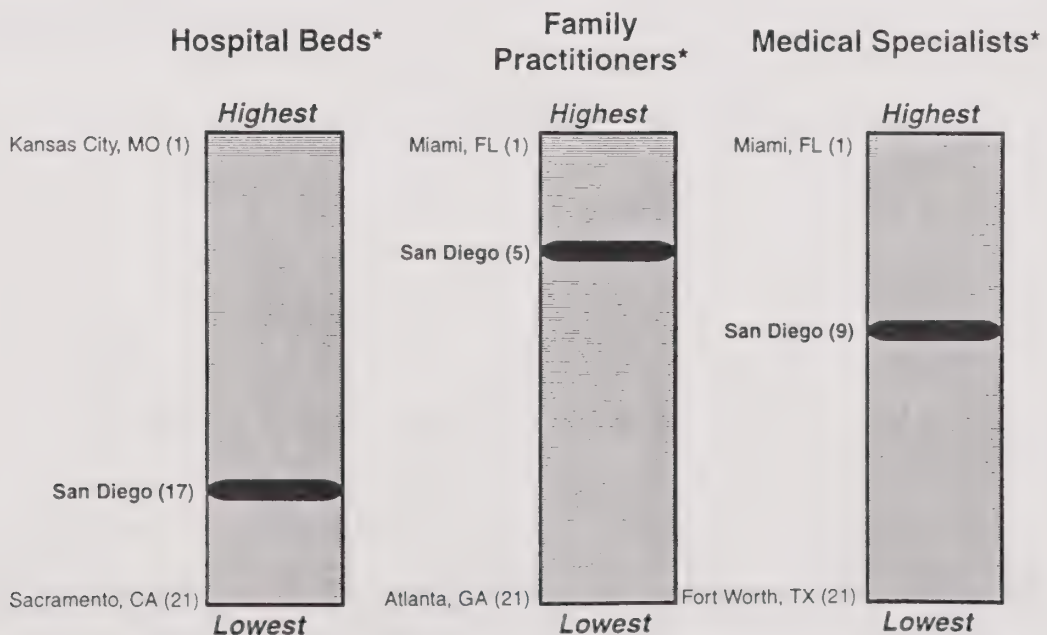
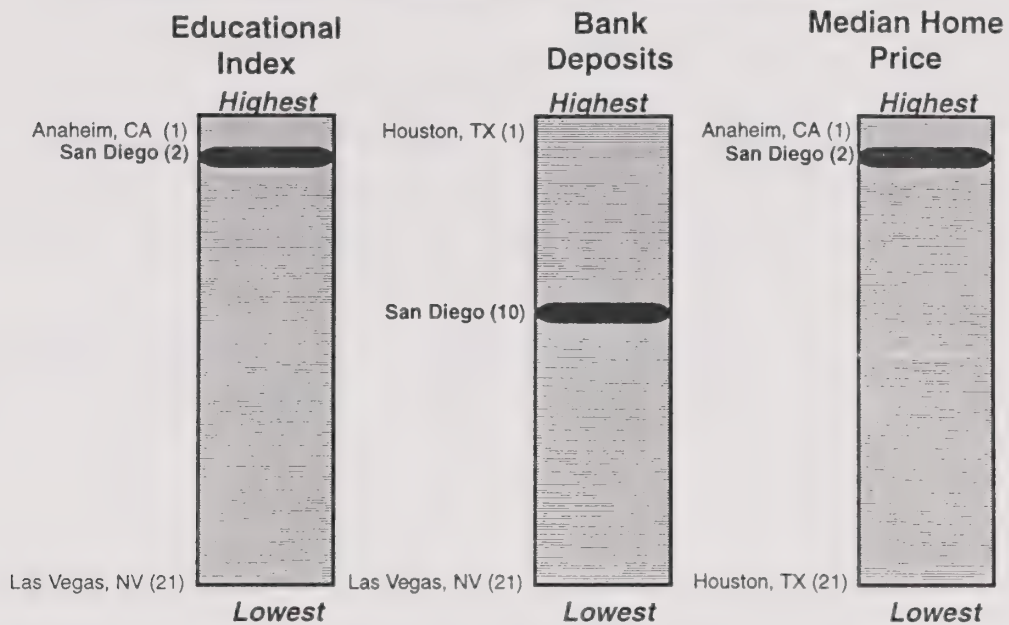
The number of births to unmarried women rose to 13,315 in 1989 from 5,225 in 1980, up 155%, exceeding the rate of growth for all births of 54%. The percent of total births to unmarried women has risen steadily since 1980. In 1989, 28% of all births were to unmarried women, compared to 17% in 1980.

Health Resources

The level of health resources in the San Diego region is a mixed picture when compared to the other 20 major metro regions (see Figure A21). While the region has a high ranking (5th) for the number of general family practitioners, it ranks in the middle (9th) for medical specialists. A review of the hospitals in the San Diego region compared to the other 20 regions shows fewer hospital beds (ranked 15th). However, fewer hospital beds per capita may mean more productive use of resources, or reflect the influence of the military's health services.

Figure A21 Development Capacity

San Diego Region Compared to Twenty Selected Metro Regions



* Per 1,000 Residents

Source: Places Rated Almanac (New York: Prentice Hall, 1989)

4: Infrastructure Capacity

The public sector and regulated local utility companies play a direct role in ensuring access to key public services that promote the region's economic and social well-being. From transportation to basic utilities and more, the public sector is an active participant in adding to the region's infrastructure. The categories of infrastructure capacity measured are:

- ♦ Transportation Resources -- the availability and quality of transportation services. Measures include mass transit seat miles per capita, commuting times, level of congestion and accident rates.
- ♦ Utility Resources -- a broad range of utility services from electricity to water to telecommunications. Measures focus on cost data to rate these utilities.
- ♦ Government Resources -- the levels of resources available to local governments are important determinants of infrastructure capacity. Measures include tax levels and expenditures per capita, and education expenditures per pupil, as well as a discussion on expanding local government revenues.

In addition to these regional infrastructure areas, which had information available to evaluate and compare San Diego with other metro regions, a brief discussion on state and local infrastructure trends is included.

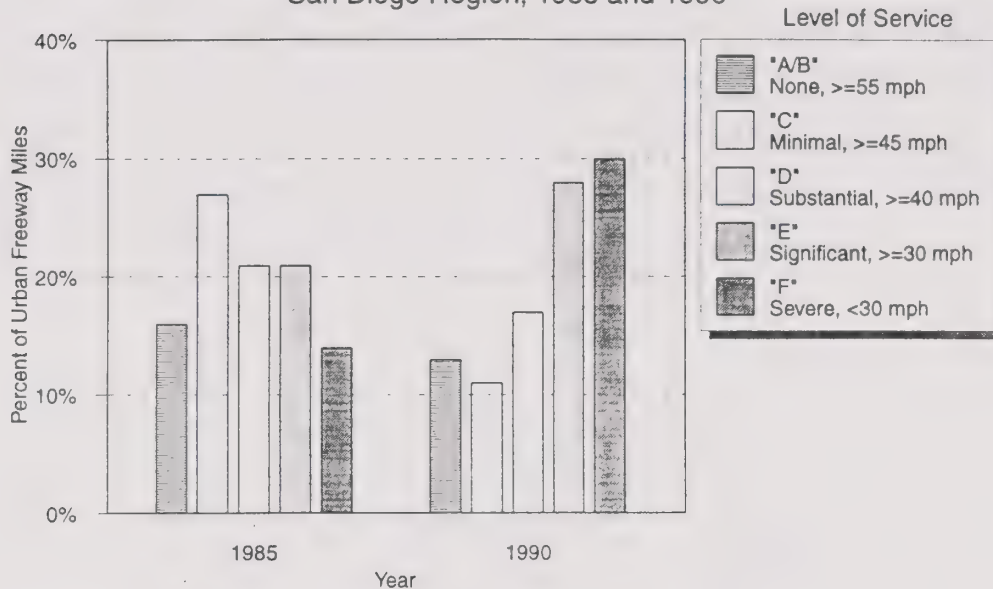
Transportation Resources

The ability of the roadway network, measured in commute time, to get people to and from work in the San Diego region is ranked second best when compared to the 20 other metro regions, as seen in Figure A23. San Diego residents require, on average, 41 minutes to commute to and from work each day. This finding is significant when considered with the fact that traffic volumes on 20 major freeway links in the region more than doubled between 1980 and 1987. This finding may also be due in part to a favorable jobs-housing balance in the San Diego region compared to the other 20 major metro regions.

Mass transit availability ranks 13th when compared to the other 20 regions (see Figure A23). Locally, there are 1.33 public transit seat miles per capita. Seattle, ranked 1st, for example, has 6.37 public transit seat miles per capita.

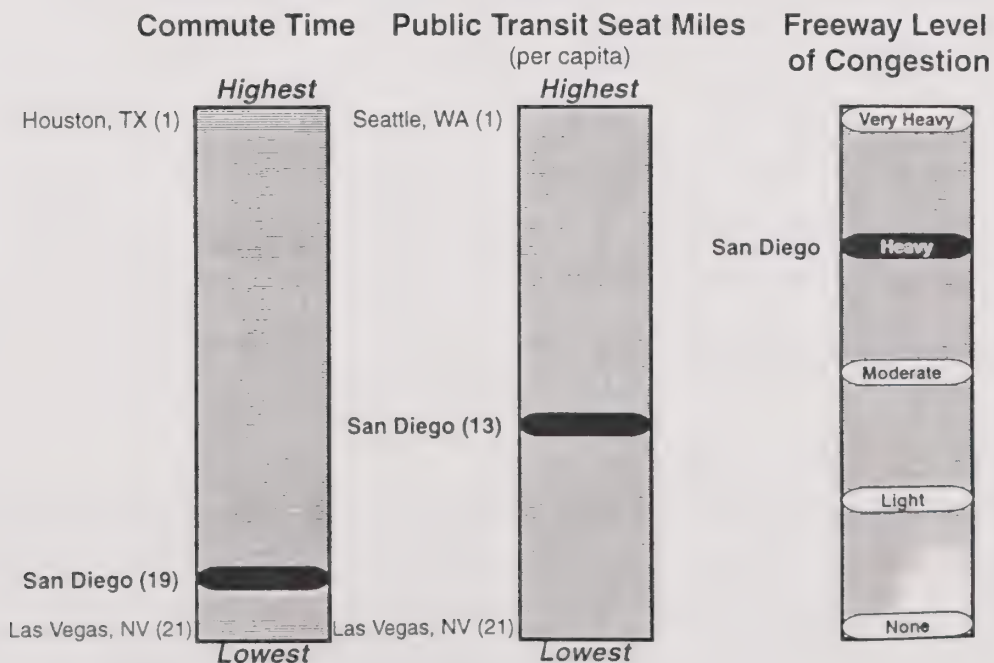
Figure A22
Percent of Urban Freeway Miles
by Level of Service

San Diego Region, 1985 and 1990



Source: Sandag Info '92 Number 2, San Diego Region
 Freeways Level of Service

Figure A23
Transportation Capacity Indicators
 San Diego Region Compared to Twenty Selected Metro Regions



Source: Places Rated Almanac (New York: Prentice Hall, 1989)

Airports

San Diego's Lindbergh Field is conveniently located, and currently is capable of handling domestically-generated air traffic. However, a recent study by the San Diego Association of Governments points out many existing and future shortcomings of the airport. Because of the airport's location, its hours of operation are limited, its ground access is inadequate, its runways are too short to accommodate major international air traffic, and by the year 2000, its capacity will be inadequate to accommodate the residents' demand for air service.

Utilities

The San Diego region does not fare well when compared to the other 20 major regions in its utility resources. The region has the highest electricity rates although, because of the mild climate, not as much energy may be consumed per capita. San Diego's semi-arid climate and limited resources of local water make it critically dependent upon water imported from outside the region. Less than five percent of the region's water is obtained locally, while more than 95% must be imported from as far away as 600 miles. Water transported to San Diego is also relatively expensive due to the added cost of pumping it here. Imported water costs San Diego area farmers between \$300 and \$500 per acre foot. In other California counties, such as nearby Imperial County, water costs only \$40 per acre foot. In the Central Valley, Federal government subsidies reduce the cost of water to as little as \$10 per acre foot.

Government Resources

Government resources -- measured by revenue availability and spending levels -- are not goods in themselves but a means to an end. Local governments in the San Diego region during 1990 spent \$1,616 per person to provide citizens and businesses with essential government services: schools, community facilities, public safety, transportation, etc. Together, these expenditures represent about 9% of the region's personal income.

Statewide, government expenditures per capita during fiscal year 1989 were \$2,497, ranking California 13th out of 50 states, and nearly 18% above the national average. Together, state and local government expenditures were \$4,090 per capita during fiscal year 1989, ranking California 8th among the 50 states and 14% above the national average.

A ranking of 295 cities nationwide with population of 75,000 or more shows that the City of San Diego was 157th in per capita municipal expenditures, far less than any city of comparable size. Per capita revenues ranked somewhat higher at 124th. San Diego City revenues averaged \$976 per person while expenditures averaged \$825. The City of San Diego had the lowest ranking of any of the nation's 24 largest cities. Four other San Diego area cities were included. Only Oceanside's per capita revenues were above the City of San Diego. The other three cities, Escondido, Chula Vista, and El Cajon, had lower per capita financing.

Expanding Net Local Government Resources. A major objective of SANDAG's Regional Growth Management Strategy is to ensure that the region's projected growth does not damage the existing quality of life. One way the Strategy will achieve this objective is by establishing a framework for managing growth in the region. In this light, this section presents a public-policy oriented, cost-effectiveness approach to managing economic growth.

In San Diego, as throughout the U.S., the shift from manufacturing to services has been one of the most fundamental economic trends in the postwar area. Locally, this shift has meant replacing relatively high-skilled, high-wage jobs with low-skilled, low-paying jobs. The increase in jobs recorded in the tourist industry, within the service sector, is a prime example of how successful our region has been in encouraging service industry job opportunities. Public sector encouragement can be seen in the resources we have provided this industry, such as Mission Bay, the Wild Animal Park, Sea World, and most recently, the Convention Center. Each of these attractions was welcomed and encouraged, sometimes with the expenditure of public money. In turn, these attractions have provided jobs for local residents and revenue for local governments.

Viewing growth from a quality of life perspective, however, it is necessary to assess the net result of growth from encouraging specific types of economic activity. One way to analyze the local impact between two different types of economic development is to use an input-output model. In this case, the I/O model can determine the impact on the local economy from responding to an increase in demand for its goods and services.

The San Diego region has primarily used I/O models in the past as a way of estimating the impact of a large increase in employment due to the expansion or relocation of a major business or industry. This type of use of the I/O model begins with the direct increase of employment, and the I/O model estimates the ripple or multiplier effects as a result of the change in employment. Two general conclusions held by most people when this procedure was used are: more jobs are generated by basic sector industries than other industries, and these jobs result in relatively more employment related in-migration and thus population growth than other industries.

The procedure employed here is different. The impact procedure begins with an increase in the demand for a good(s) or service(s), not an expansion or relocation of a business. The results, or impact, on the local economy are also much different, as shown below. The manufacturing and tourist industries were chosen as examples to illustrate the impact differences on the local economy. Both industries have as an objective selling their product outside the region and bringing additional funds into the region. Also, the demand for each industry's product may be global. The global demand for products is expected to be the driving market-force behind economic growth and prosperity during the 1990s and beyond.

Using the tourist industry and manufacturing industry as examples, Figure 13a shows the net result from our local economy responding to a \$1 million increase in demand for services (visitors) and goods (consumers of manufactured goods). As shown in Figure 18a, the manufacturing sector requires 18.2 employees to respond to a \$1 million dollar increase in its goods production, whereas the service sector requires 46.5 employees to respond to the same increase in demand for its services. The primary reason for this major difference is that the manufacturing sector employees require capital or machines to produce the product, whereas the product of the service is, for the most part, labor only. Thus, for every \$1 million increase in demand for "services," the region requires over two and one-half times the number of employees to respond than it does for producing "goods."

To the extent that these jobs, or the net increase in jobs, are not filled by local residents, the \$1 million increase in service sector demand will result in a proportionately larger increase in population. Population growth affects the quality of life factors that make up the Regional

Growth Management Strategy. The more the population growth, the more the region needs to manage its growth. There is less population growth related to responding to a \$1 million increase in the manufacturing sector and, therefore, less population growth to manage.

Previous SANDAG reports have shown each new manufacturing job being responsible for bringing about four new people to the region, varying inversely with the local unemployment rate. However, this estimate was based upon the local economic development strategy in place at that time. The development strategy was generally one of marketing the San Diego region throughout the U.S., Japan, and Europe, with the objective of getting businesses to uproot and/or expand to our region. The procedure employed here is different, beginning with an increase in the demand for a good(s) or service(s), not an expansion or relocation of a business. The results, or impact on the local economy, are also much different, as discussed thus far. The impacts to the public sector, discussed below, are also revealing.

In addition, the wages paid per employee are also an important factor to consider when assessing the net effect on government resources. In responding to the \$1 million increase in demand, the manufacturing sector pays an average wage of \$28,093 per employee, whereas the service sector pays an average wage of \$16,406 per employee (Figure A24). The income of an area is the basis for paying government taxes and fees of all kinds; i.e., income, sales, property, etc. The taxes generated from the manufacturing employees hired to respond to the increase in demand is \$12,236 per employee, whereas taxes paid by employees hired in the services sector were \$7,316 per employee (Figure A25). The service sector pays 40% less in taxes per employee than does the manufacturing sector.

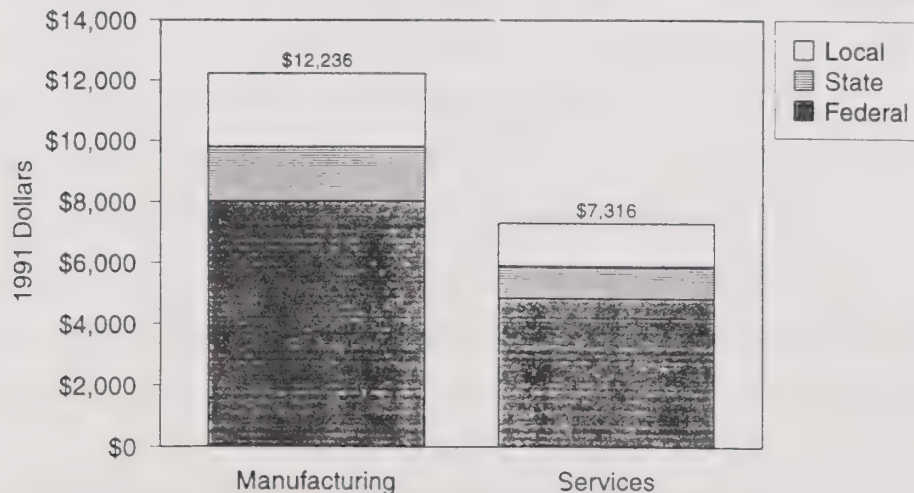
Figure A24
REQUIREMENTS BY THE MANUFACTURING AND SERVICE SECTORS
TO ACCOMMODATE \$1,000,000 OF DEMAND
IN THE SAN DIEGO ECONOMY

(All effects are calculated per \$1,000,000—1991 dollars)

	Manufacturing Sector	Per Employee	Services Sector	Per Employee	Pct. Dif. between Serv's & Manuf.
Increase in Demand for Products or Services in San Diego Region	\$1,000,000		\$1,000,000		
Employment required to respond					
Total Employment	18.2		46.5		
Value Added to Gross Regional Product					
Total Effects	\$727,200	\$39,956	\$1,123,100	\$24,153	65.4%
Wages					
Total Effects	\$511,300	\$28,093	\$762,900	\$16,406	71.2%
Taxes Generated					
Local Taxes	\$43,900	\$2,412	\$65,700	\$1,413	70.7%
State Taxes	\$32,600	\$1,791	\$48,700	\$1,047	71.0%
Federal Taxes	\$146,200	\$8,033	\$225,800	\$4,856	65.4%
Total Tax Revenues Generated	\$222,700	\$12,236	\$340,200	\$7,316	67.3%

Source: Sandag, Regional Input/Output Model

Figure A25
Comparison of Taxes Generated per Employee
Manufacturing Sector vs. Services Sector



Source: San Diego Association of Governments

From a quality of life perspective, defined as maintaining specific public facility and service standards, it may be a mistake to dismiss manufacturing as an activity that is declining and may be expendable. The regional economy and the local government's ability to serve its residents could be made worse by policies that exacerbate the trend. In addition, the economic future of the region may also hinge on the health of its manufacturing sector. For example, this region's "high-tech" manufacturing jobs also have high export quotients, meaning that much of the income they generate is new wealth brought here from other parts of the globe. Therefore, international trade may play an increasingly important role in determining the quality of the economic opportunities and prosperity in the region.

More subtle linkages are also at risk. If high-tech manufacturing continues to decline, the case can be made that our R&D activities would lose momentum as well. In today's "cutting edge" manufacturing facilities, the production process is an essential laboratory for R&D - a window into market needs, an inspiration for ideas, a testing ground. In order to attempt to stem the decline in local manufacturing sector employment, it may be necessary to consider public policies that encourage the manufacturing sector the way the visitor industry has been encouraged. The objective may be to be as successful with the manufacturing sector as this region has been with the visitor industry.

California's Infrastructure. In 1984, the state's Assembly Office of Research released a report on the condition of California's infrastructure. The report, "Rusty Hinges on the Golden Gate: Will the World Still Beat a Path to California's Door?", analyzed the importance of the state's infrastructure for the economy and the environment. The report focused on eight infrastructure systems, without which other vital public services and private commerce could not function -- state highways, county roads, city streets, public transit, sewage systems, water distribution systems, solid waste management, and flood control/drainage systems. Seven major findings emerged from the work:

1. The eight systems are essential to achieving state economic policy goals. Sustaining economic growth and reducing unemployment have been primary concerns of the Legislature and the Governor. California's future as a Pacific Rim trading center, its

leadership in the high-tech and defense industries, and the success of the housing and tourism industries all depend upon an efficient system of infrastructure.

2. Deferred maintenance and inadequate repairs have taken their toll, but California's public improvements are not as seriously deteriorated as those in other parts of the nation. Some facilities have deteriorated to a point that costly replacement and rebuilding programs are now required. Most areas have sizable maintenance backlogs. These systems still may be saved by adequate upkeep and care, because (a) California's moderate climate has prolonged their life expectancy, (b) many facilities were built after WWII, using modern engineering techniques, and (c) until the late 1970s, public works were maintained regularly.
3. Because we are not spending enough on intrinsic infrastructure, California is not fully prepared to sustain a revitalized economy or serve a growing population. In 1970-71, California spent 2.4 percent of the gross state product (GSP) on these infrastructure systems; in 1981-82, we spent 1.8 percent of the GSP for this purpose. The rate of expenditure did not keep pace with inflation and population growth.
4. Local jurisdictions will have to spend \$24 billion more than they can generate from current revenue sources (including state and federal funding) over the next 10 years -- to catch up on deferred maintenance, make repairs, expand services and build new facilities required by a growing population and a healthy economy.
5. Several organizational constraints will make it more difficult to improve the ways we plan, fund, and manage public improvements. The state, 58 counties, 434 cities, and almost 5,000 special districts are responsible for one or more of the eight infrastructure systems. Funding comes from and/or passes through all levels of government and many engineering standards are, in effect, dictated by the federal government.
6. Infrastructure and large sums of money are practically synonymous, while at the same time, the sources of funds are unstable and uncertain, primarily because their funding relies

excessively upon the year-to-year caprice of the federal government. Statewide, government agencies continue to use outdated financing methods, and many of these agencies have not yet fully or equitably compensated for the restrictions imposed by Propositions 13 and 4. Local jurisdictions are relying increasingly upon user fees and creative financing techniques that include such strategies as requiring builders to provide or finance capital improvements -- a method which adds to the high cost of housing in California's growing areas and results in an inequitable distribution of the financing burden (to the new home buyer).

7. These infrastructure systems have low visibility and have not yet become a politically-attractive issue. When limits on taxing and spending have forced local officials to choose among competing programs, they have been encouraged to defer maintenance and repair work in order to support other needed services.

Local Infrastructure. There are three recent reports produced by SANDAG that address local infrastructure issues. Each of these reports has been produced as part of the agency's Regional Growth Management Strategy work program. The first report is the current draft of the Regional Growth Management Strategy, ultimately an umbrella document under which regional infrastructure issues will be addressed as a way of maintaining the region's quality of life. This report lists the region's quality of life factors...nine environmental and economic factors that, if maintained or improved, are expected to ensure the region's quality of life. These factors have been identified as: air quality, transportation system and demand management, water, sewage treatment, sensitive lands preservation and open space protection, solid waste management, hazardous waste management, housing, and economic prosperity.

To determine how well we're doing with respect to maintaining or improving our quality of life, standards and objectives were assigned to each factor. These standards and objectives are the goals of the Strategy. Our ability to achieve the Quality of Life Standards and Objectives will be the primary measure of the Strategy's success. The standards and objectives are set through federal or state mandates, or by regional initiative. Examples include state and federal air quality standards, regional open space preservation policies, and the region's Trip Reduction Program to

reduce drive-alone auto trips. This report includes a set of recommended actions for each of the nine factors, designed as guidelines to help the region's many responsible agencies achieve the Quality of Life Standards and Objectives.

A second and companion document to the Regional Growth Management Strategy is the Regional Public Facilities Financing Plan. This document was produced to determine if more money is needed to pay for regional public facilities and, if so, to recommend the most appropriate and fairest sources. The Regional Revenues study identifies regional facilities as: water sewerage, solid waste, energy, hazardous waste, transportation, justice facilities, regional parks/open space, health, libraries, animal control, social services, and fire communications. Some of the study's basic findings and conclusions are:

1. Local government in the San Diego region spends a sizable amount of money each year on both public facilities and services. During fiscal year 1988-89, the most recent year for which complete data are available, local agencies spent nearly \$4.9 billion. This includes expenditures by cities and the county, school districts, special districts, redevelopment agencies, transit operators and others. Expenditures per household by all of these agencies were about \$5,500, or about \$2,000 per person. Of the total expenditures, operations and maintenance accounted for \$4.19 billion, or 95 percent. The remainder, \$666 million, was spent on capital costs of facilities.
2. The provision of these public facilities and services is accomplished by the transfer of money from the private sector to the public sector through taxes and fees. This transfer of money may impact the economy and may reduce housing affordability. On the other hand, lack of facilities may also have economic impacts. A community (or region) must determine an appropriate balance between the area's economy and the need for governmental revenues.
3. The state plays a significant role in financing local facilities. Since 1980, California voters have approved almost \$13 billion in state bonds for local projects, including water, sewer,

schools, open space and transportation. However, state funding has been inadequate to keep up with the demands of an increasing population.

4. Current and forecasted revenues necessary to fund local regional facilities are less than the forecasted costs for their provision. The projected funding shortfall is \$12.9 billion over the period 1989-2010.

The third study on infrastructure issues produced by SANDAG was the "Effects of Development Impact Fees on the San Diego Economy, Housing Prices and Affordability." This report was completed as part of the Regional Revenues study. According to the report, development impact fees are the most recent and perhaps most successful attempt made by local governments over the past decade to raise needed revenue, primarily to fund the construction of local infrastructure items. Development impact fees levied by local jurisdictions include: public facilities, school, traffic mitigation, sewer, water, fire mitigation, drainage and flood control, art in public places, park lands, and housing trust fund.

The amount of development impact fees collected during any time period depends upon the amount of development, as well as the location of the development. Development impact fees vary by jurisdiction, both their existence and value. Using SANDAG's Series 7 Regional Growth Forecast as an indicator of growth, the report found that local jurisdictions collect, on average, \$275 million in development impact fees, measured in real 1990 dollars. The aggregate amount of fees collected (\$275 million annually) is greater than the \$212 million in sales tax revenue collected by local jurisdictions during fiscal year 1989. Regionwide, these development impact fees represent about 6 percent of total local government revenue (\$5.06 billion during FY 1989) and 30-50 percent of the revenues used to pay for the capital costs of public facilities (\$666 million). The report estimated the average per-square-foot value of development impact fees for the three primary development types: residential \$6.93 per square foot; commercial \$8.27 per square foot; and industrial \$4.29 per square foot. Impact fees represent 9 percent of the residential building permit value, 20 percent of the commercial building permit value, and 15 percent of the industrial building permit value.

In addition, the report found that the search for alternative revenue sources became necessary because legislative and initiative based statutes, constitutional amendments, and decreased federal aid have reduced or restricted municipal revenue. Proposition 13, the property tax limitation, Proposition 4, the expenditure restriction, and Proposition 62, the requirement for voter approval of increased taxes, have all fundamentally altered local government's revenue authority. Also, public officials recognize that the degree of mutual interdependence between the private development/building process and the provision of public facilities is so substantial that, in the long run, neither can exist without the other. On one hand, the market for urban development sites is nonexistent, by definition, in the absence of essential public facilities. On the other hand, local governments exist to respond to service needs of the occupants of development, and depend upon the tax base provided by new development to continue to construct and maintain community facilities and services.

METHODOLOGY FOR SELECTING COMPARABLE METRO AREAS

The comparison of data regarding the San Diego region is done in two ways. Cross-sectional data are used to compare San Diego to twenty other Metropolitan areas (Metro areas), and Time-series data comparing the United States, California and San Diego are used to observe changes over the last decade.

Metropolitan areas are used for comparison because they are the smallest units of urban geography for which there is the largest amount of comparable data and they represent our economic competitors. Metropolitan areas are defined according to federal standards. Broadly speaking, an area qualifies as "metropolitan" in one of two ways: if there is a city with a population of at least 50,000, or an urbanized area of at least 50,000 located in a county or counties with a total population of at least 100,000. In either case, the metropolitan area's boundaries coincide with those of the surrounding county or counties.

Of the 333 metropolitan areas in the United States, the twenty with characteristics most similar to the San Diego region were chosen for cross-sectional comparison. The criteria used to select areas, explained in detail below, includes: size (population), growth rate, similarity of growth characteristics during the 1980s and expectations of growth in the 1990s, and geographic location (i.e., Metro-regions located in the Sunbelt and/or the West are preferred to other locations such as the Northeast). Large Metro areas -- Los Angeles-Long Beach, California; New York, New York; and Chicago, Illinois -- because of their size, are not included in the direct comparison, but are included in most of the data included in the Appendix for reference.

The twenty metro areas used in the comparison are: Anaheim-Santa Ana, California; Atlanta, Georgia; Dallas, Texas; Denver, Colorado; Fort Lauderdale, Florida; Fort Worth, Texas; Houston, Texas; Kansas City, Missouri-Kansas; Las Vegas, Nevada; Miami-Hialeah, Florida; Norfolk-Virginia Beach, Virginia; Orlando, Florida; Phoenix, Arizona; Portland, Oregon; Riverside-San Bernardino, California; Sacramento, California; Salt Lake City-Ogden, Utah; San Jose, California; Seattle, Washington; and Tampa-St. Petersburg, Florida.

Comparable Metropolitan Area Selection Criteria

A procedure was developed to select those metropolitan areas which had characteristics similar to the San Diego region. The selection criteria scores, shown in the table below, can be interpreted as an index of similarity/dissimilarity where higher scores represent cities which have more characteristics similar to San Diego and those with lower scores have fewer characteristics which are similar to the region. Each characteristic is measured on a 4 point scale (0, 1, 2, 3), where 0 represents the most dissimilarity and 3 represents a high degree of similarity. Therefore, a Metro area's score of 3 does not mean that the measured variable's value is larger than a Metro area with a score of 2, but rather that it is more similar to the San Diego Metro area. For example, when measuring population growth from 1980 to 1989, Portland, Oregon received a score of 0. This is because Portland's growth rate of 6.6% was only one-fourth that of the San Diego area's (26.1%) and, therefore, considered "dissimilar" to this region. Furthermore, Riverside/San Bernardino, California received a score of 0 because its growth rate of 42.4% was nearly double that of San Diego. Sacramento, California had a growth rate of 25.1%, very similar to San Diego's and, therefore, received a score of 3.

The following criteria were used to determine the similarity of San Diego and other Metro areas. Data sources include: U.S. Department of Commerce, State and Metropolitan Area Data Book 1991, Places Rated Almanac, and the State Department of Finance.

Size

The 1989 total population figure is used in the comparison of size. Metro areas which were within (+ or -) 10 percent received a score of 3, those Metro areas which were within 10 and 25 percent received a score of 2, those Metro areas within 25 and 50 percent received a score of 1, and those Metro areas which had population figures that differed more than 50 percent from the San Diego Metro area received a score of 0.

Population Growth Rate 1980-1989

Population growth rates from 1980 to 1989 were from 1980 and 1989 population data. Metro areas which had growth rates within (+ or -) 10 percent received a score of 3, those

Metro areas which were within 10 and 25 percent received a score of 2, those Metro areas within 25 and 50 percent received a score of 1, and those Metro areas which had population growth rates that differed more than 50 percent from the San Diego Metro area received a score of 0.

Proximity to San Diego

Distance radii in 500-mile increments were determined from San Diego. Those Metro areas which were within 500 miles received a score of 3, those Metro areas which were within 500 and 1000 miles received a score of 2, those Metro areas within 1000 and 1500 miles received a score of 1, and those Metro areas which were more than 1500 miles away from the San Diego Metro area received a score of 0.

Location

Three criteria were used to measure location: (1) whether the area is Coastal, (2) whether the area is in the Sunbelt, and (3) whether the area is in the West. Each criterion was calculated as a 0 or a 1. Therefore, if a Metro area is on the Coast, in the Sunbelt and in the West, it receives a score of 3. The data are presented broken out by criterion for ease of use.

Military

Military presence is measured as a function of the number of uniformed military personnel and types of bases. Those areas that have military presence similar to this area receive a score of 3.

High Tech Employment

The percent of total employment in SIC code 87 (which includes Commercial Physical and Biological Research, Testing Laboratories, and Non-commercial Research) is used as an estimator of High Tech Employment. Metro areas which have a percentage of High Tech employment within (+ or -) 10 percent of San Diego's received a score of 3 (e.g., if San

Diego had 5 percent High Tech employment, and another Metro Area had 10 percent, there would be a 100 percent difference between the two areas). Those Metro areas which were within 10 and 25 percent received a score of 2, those Metro areas within 25 and 50 percent received a score of 1, and those Metro areas which had employment percentages that differed more than 50 percent from the San Diego Metro area received a score of 0.

Hotel/Motel Employment (Visitor Industry)

The percent of total employment in SIC code 70 (Hotels, Rooming Houses, Camps and other Lodging Places) is used as an estimator of Hotel/Motel Employment. Metro areas which have a percentage of Hotel/Motel employment within (+ or -) 10 percent of San Diego's received a score of 3 (e.g., if San Diego had 5 percent Hotel/Motel employment, and another Metro Area had 10 percent, there would be a 100 percent difference between the two areas). Those Metro areas which were within 10 and 25 percent received a score of 2, those Metro areas within 25 and 50 percent received a score of 1, and those Metro areas which had employment percentages that differed more than 50 percent from the San Diego Metro area received a score of 0.

Migration

Using driver's license address change data, the net migration between San Diego and each Metro Area was estimated. Metro areas whose net exchange with the San Diego area amounted to more than 2,000 people annually received a score of 3. Those Metro areas with net population exchanges of 1,500-2,000 received a score of 2. Those Metro areas with a net exchange of 500-1,500 received a score of 1, and those Metro areas which had a net exchange of 500 or less differed more than 50 percent from the San Diego Metro area received a score of 0.

Location of Selected Metropolitan Areas

A-73



Figure A26
Comparable Metropolitan Area Selection Criteria

Metro Area	Size	Pop Growth 1980-90	Proximity San Diego	Coastal	Sunbelt	The West	Military	High Tech Hotel/Motel Empl.	Empl.	Migration	Total Score
Anaheim-Santa Ana, CA	3	2	3	0	1	1	2	3	1	3	19
Riverside/San Bernardino, CA	3	0	3	0	1	1	2	3	3	3	19
Phoenix, AZ	3	1	3	0	1	1	1	2	2	1	15
Dallas, TX	3	1	1	0	1	0	1	3	1	2	13
Sacramento, CA	1	3	3	0	0	1	1	3	1	0	13
Seattle, WA	2	1	1	1	0	1	3	1	1	2	13
Atlanta, GA	2	2	0	0	1	0	2	2	2	1	12
Fort Worth-Arlington, TX	1	1	1	0	1	0	3	3	0	2	12
Salt Lake City-Ogden, UT	1	2	2	0	0	1	1	3	2	0	12
Tampa-St. Petersburg, FL	3	2	0	1	1	0	1	2	2	0	12
Denver, CO	1	2	2	0	0	0	3	2	1	0	11
Fort Lauderdale, FL	1	2	0	1	1	0	0	3	3	0	11
Las Vegas, NV	0	1	3	0	1	1	2	2	0	1	11
Houston, TX	1	2	1	0	1	0	1	2	0	2	10
Norfolk-Virginia Beach, VA	1	1	0	1	0	0	3	3	1	0	10
Miami-Hialeah, FL	2	1	0	1	1	0	0	2	2	0	9
Portland, OR	1	0	2	0	0	1	0	2	1	1	8
Kansas City, MO-KS	1	0	1	0	0	0	1	2	2	0	7
San Jose, CA	1	1	3	0	0	1	1	0	0	0	7
Orlando, FL	0	0	0	1	1	0	0	2	0	0	4

Measure	Score	Criteria	Measure	Score	Criteria	Measure	Score	Criteria
Size	3	within 10% of San Diego	Coastal	1	Has port or is coastal	High Tech	3	within 10% of San Diego
	2	within 10% to 25% of San Diego		0	no access to ocean	Employ-	2	within 10% to 25% of San Diego
	1	within 25% to 50% of San Diego	Sunbelt	1	City is in Sunbelt	ment	1	within 25% to 50% of San Diego
	0	others		0	Not in Sunbelt		0	others
Population	3	within 10% of San Diego	The West	1	City is in the West	Hotel/Motel	3	within 10% of San Diego
Growth rate	2	within 10% to 25% of San Diego		0	City not in West	Employ-	2	within 10% to 25% of San Diego
1980-1990	1	within 25% to 50% of San Diego	Military	3	Presence similar to San Diego	ment	1	within 25% to 50% of San Diego
	0	others		2	Some military presence		0	others
Proximity to	3	within 500 miles		1	Little military presence	Net	3	+or- 2001 or more people
San Diego	2	500 to 1000 miles		0	Presence dissimilar	Migration	2	+or- 1501-2000 people
	1	1000 to 1500 miles					1	+or- 501-1500 people
	0	more than 1500 miles					0	+or- 500 or less people

(RATING SCALE: 3= most similar to San Diego, 0= Least similar to San Diego)

APPENDIX 2
A CLOSER LOOK AT SAN DIEGO

A CLOSER LOOK AT SAN DIEGO

ASSESSING THE QUALITY OF OUR ECONOMIC GROWTH

Over the past several decades the San Diego region has grown in virtually all areas that can be measured. Most notable has been the rapid population, housing and employment growth especially during the latter half of the 1980s, when population growth in this region averaged over 77,000 new people each year and over 53,000 new jobs were created annually. During the first half of 1980s, the region's population growth averaged 43,000 people each year, and 35,000 new jobs. Although, there is agreement that growth was rapid, there is some disagreement on the effects this growth had on the region's economic prosperity and quality of life.

One way to help clarify the relationship between economic prosperity and quality of life is to review what occurred during the 1980s. Using jobs and payroll as an indicator of economic prosperity, Figure A27 classifies industry employment into three parts, high, medium and low, based on their average 1990 payroll. Each of the three parts of Figure A27 is organized by its contribution to the change in total employment between 1980 and 1990. Within the high group most jobs were generated in health services (26,767 jobs), in the middle group the most jobs were created in business services (24,702 jobs), and in the low group, most jobs were created by eating and drinking establishments (32,144 jobs).

The industries shown in Figure A27 with the highest payroll averages account for 50 percent of the region's total payroll (excluding government employment). In 1990, these industries accounted for 34 percent of total non-government employment, as shown in Figure A28. Also shown in Figure 2 is that in 1980 the same industries that accounted for 50 percent of total non-government payroll represented a higher proportion (38 percent) of total non-government employment in the region. Thus, in 1990 fewer employees were required to make up 50 percent of the region's total non-government payroll, than in 1980.

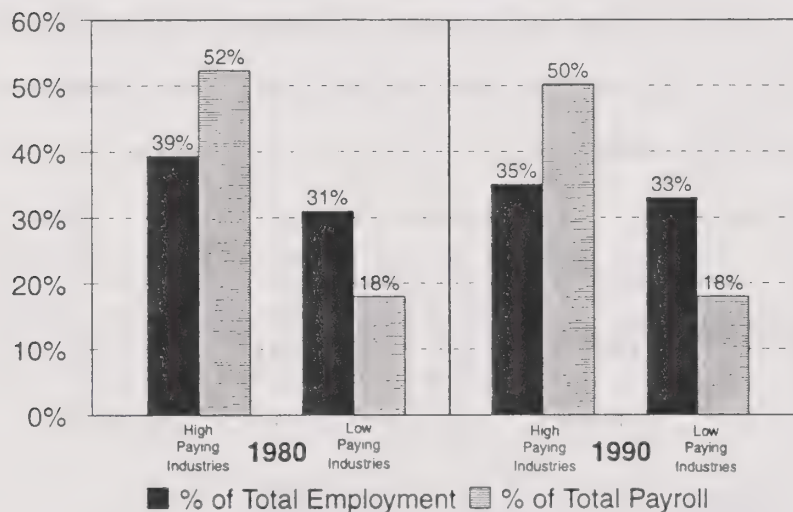
Figure A27
Employment by Sector
San Diego Region, 1980–1990

SIC SECTOR	1990 Avg. Pay	1980 Employment	1990 Employment	1980–90 Change in Emp.	Annual Avg. Change
29 Petroleum and Coal	\$49,270	83	111	28	3.1%
62 Security and Comm.	\$44,607	1,319	2,821	1,502	10.4%
81 Legal Services	\$44,494	3,789	10,232	6,443	15.5%
49 Electric/Gas/Sanitary	\$40,442	6,200	5,843	(357)	–0.5%
37 Transp. Equip	\$34,529	28,316	28,544	228	0.1%
48 Communication	\$33,959	10,842	10,014	(828)	–0.7%
35 Industrial Machinery	\$33,268	15,643	15,672	29	0.0%
45 Trans. by Air	\$33,141	4,538	4,747	209	0.4%
10 Mining	\$32,803	658	716	58	0.8%
28 Chemicals and Allied	\$32,727	1,916	3,355	1,439	6.8%
16 Heavy Construction	\$32,517	3,294	4,997	1,703	4.7%
33 Primary Metals	\$31,578	384	637	253	6.0%
38 Instrument and related	\$31,498	7,679	19,727	12,048	14.3%
61 Non–dep. Inst.	\$30,695	7,838	7,180	(658)	–0.8%
64 Insurance agents	\$29,679	3,019	5,468	2,449	7.4%
63 Insurance Carriers	\$29,542	5,239	8,829	3,590	6.2%
36 Electronic Equip	\$28,535	19,468	20,007	539	0.3%
50 Wholesale Trade (DUR)	\$28,513	18,065	26,955	8,890	4.5%
32 Stone, Clay, Glass	\$27,785	1,851	2,887	1,036	5.1%
15 General Contractors	\$26,326	11,008	16,277	5,269	4.4%
80 Health Services	\$25,888	35,741	62,508	26,767	6.8%
27 Printing and Publishing	\$25,724	7,047	12,030	4,983	6.4%
34 Fabricated Metals	\$24,748	3,871	6,349	2,478	5.8%
High Averages	\$30,231	197,808	275,906	78,098	3.6%
51 Wholesale Trade NON–DUR	\$24,285	9,660	16,647	6,987	6.6%
60 Depository Inst.	\$24,143	9,301	19,133	9,832	9.6%
26 Paper and Allied Products	\$23,099	424	555	131	2.8%
39 Misc Manuf.	\$22,792	3,081	5,220	2,139	6.3%
65 Real Estate	\$22,011	13,436	24,382	10,946	7.4%
55 Auto Dealers	\$21,969	15,646	21,068	5,422	3.2%
17 Special Trades	\$21,798	23,351	44,987	21,636	8.4%
20 Food and Kindred	\$21,603	6,376	3,206	(3,170)	–4.5%
67 Holding and other Inv.	\$21,117	1,102	2,508	1,406	11.6%
30 Rubber and misc. Plastics	\$20,982	1,163	3,419	2,256	17.6%
41 Passenger Transit	\$20,717	1,708	3,613	1,905	10.1%
42 Trucking and Warehousing	\$19,310	3,115	5,817	2,702	7.9%
57 Furniture and Homefur.	\$19,179	5,731	9,424	3,693	5.9%
25 Furniture and Fixtures	\$19,030	1,374	2,433	1,059	7.0%
73 Business Services	\$18,735	34,734	59,436	24,702	6.5%
24 Lumber and Wood Products	\$18,411	1,026	1,661	635	5.6%
52 Building Materials	\$18,296	4,071	7,204	3,133	7.0%
47 Transp. Services	\$18,223	1,650	2,999	1,349	7.4%
79 Amusement and Rec	\$18,063	7,105	10,931	3,826	4.9%
Mid Averages	\$20,905	144,054	244,643	100,589	6.3%
75 Auto repair	\$17,114	5,694	10,871	5,177	8.3%
31 Leather and products	\$15,848	526	297	(229)	–4.0%
82 Educational Services	\$15,402	5,003	12,287	7,284	13.2%
7 Ag. Services	\$14,810	4,266	8,787	4,521	9.6%
54 Food Stores	\$14,786	15,525	25,144	9,619	5.6%
23 Apparel	\$14,564	3,777	4,213	436	1.0%
59 Miscell. Retail	\$13,833	16,899	24,082	7,183	3.9%
22 Textile Mill	\$13,695	616	475	(141)	–2.1%
83 Social Services	\$13,251	7,998	13,273	5,275	6.0%
76 Misc. Repair	\$12,590	2,847	6,490	3,643	11.6%
70 Hotel and Other Lodging	\$12,105	14,886	24,631	9,745	6.0%
56 Apparel and Acc. Stores	\$11,623	6,763	11,997	5,234	7.0%
53 General Merch.	\$11,589	14,440	19,295	4,855	3.1%
86 Membership Organizations	\$11,323	8,117	13,851	5,734	6.4%
72 Personal Services	\$10,993	8,518	12,214	3,696	3.9%
78 Motion Pictures	\$10,826	1,380	3,728	2,348	15.5%
58 Eating and Drinking	\$8,010	43,073	75,217	32,144	6.8%
Low Averages	\$11,751	160,328	266,852	106,524	6.0%
All Industries	\$21,070	502,190	787,401	285,211	5.2%

Source: County Business Patterns, U.S. Department of Commerce, 1980 through 1990

On the other hand, Figure A28 also shows what occurred in the industries with the lowest average payroll. In 1990, the industries that made up 33 percent of total non-government employment in the region accounted for only 18 percent of the region's total non-government payroll. During 1980, this same group of industries, accounted for 18 percent of payroll and 31 percent of total non-government employment. Thus, in 1990 it required more employment in these industries to make up the same percentage of the region's total non-government payroll, as it did in 1980.

Figure A28
Employment Compared to Payroll
 (1990 Industries)



Source: Calculated from 1980-1990 County Business Patterns, U.S. Department of Commerce

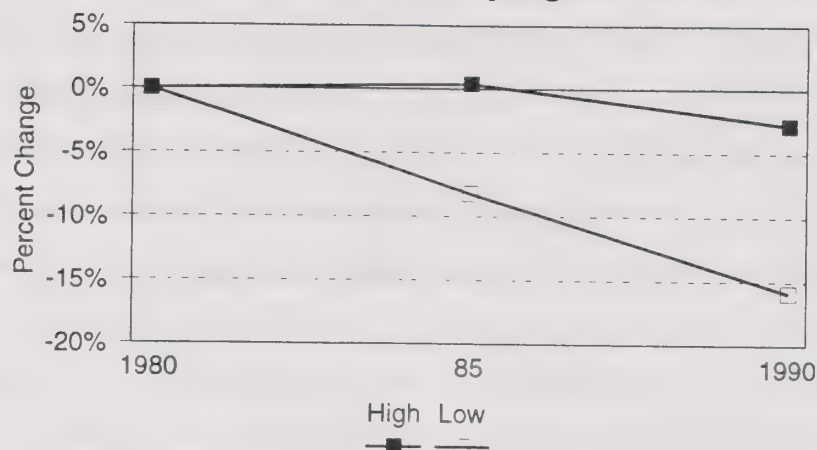
The relationship between these two groups of industries and their average payroll per employee is shown in Figure A29. The trend shown in Figure A29 represents the annual rate of change in average payroll per employee for the high and low paying sectors. The trend indicates that at times the high paying industries average payroll was above the 1980 base year level, but as the trend approaches 1990 the average payroll drops to a level about equal to its 1980 base. Thus, on average, employees in these high average payroll sectors have experienced no increase or decrease in their real wages (real means adjusted for inflation). The trend for the industries with

low average payrolls is clearly different. Employees in these industries have experienced a continuing decline in their average wage, dropping about 15 percent since the 1980 base year.

Job growth in each of these high and low paying groups of industries showed two distinct trends during the 1980s, as shown in Figure A30. Between 1980 and 1984, industries in the high paying group accounted for 46 percent of the regions total non-government employment growth, and the low paying industries accounted for 37 percent. Between 1986 and 1990 this trend changed dramatically. The high paying industries accounted for only 25 percent of the total non-government employment growth during the 1986 to 1990 time period, whereas the low paying industries accounted for 42 percent. The overall trend during the entire decade shows that high paying jobs, which provide 50 percent of the regions total non-government payroll, accounted for 28 percent of total non-government employment, and the low paying industries, which account for 18 percent of the region's total non-government payroll, accounted for 36 percent of the employment growth.

One reason the region was able to generate a large proportion of high paying jobs during the first half of the 1980s was the increase in the level of Department of Defense expenditures. Department of Defense expenditures in this region more than doubled between 1980 and 1984, rising from about \$3 billion to \$6 billion, as shown in Figure A30. As shown above, the trend for high paying jobs and their payroll was upward during this time period. By 1987, Department of Defense expenditures had tripled over their 1980 level, rising to over \$9 billion. During the second half of the 1980s, Department of Defense expenditures peaked and began to decline, reflecting the many changes that have taken place throughout the world. The leveling off and ultimately the decline in DoD expenditures is reflected in the fewer number of jobs being generated in the high paying industries during the second half of the 1980s. To a great degree, this region is still dependent on rising DoD expenditures for job increases in it's high paying industries sufficient to effect the region's payroll trends.

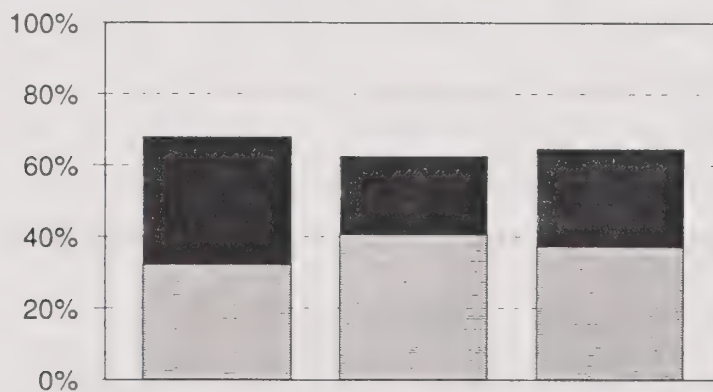
Figure A29
Change in Average Pay
In High and Low Paying Sectors*





* Pay Indexed to 1980.

Source: Calculated from 1980-1990 County Business Patterns, U.S. Department of Commerce

Figure A30
Job Creation in High and Low Paying Sectors



	1980-85	1985-90	1980-90
Low Paying 	32.2%	40.6%	37.3%
High Paying 	35.7%	22.0%	27.4%

Data represent job creation in high and low paying sectors as a percent of total jobs created, not total increase in employment over time.

Source: Calculated from 1980-1990 County Business Patterns, U.S. Department of Commerce

Importance of a Diversified Economy

One of the key elements of this economic prosperity strategy is continuing to improve our industry diversification. This statement has two broad meanings. First, industries and jobs that are not defined as high value added are important. These industries include tourism, many types of services, retail trade, agriculture, and the uniformed military. Tourism, the uniformed military, and to a lesser degree agriculture, for example, have given the San Diego region economic stability, as well as the ability to maintain a relatively low unemployment rate. These are important attributes. Other regions, such as Dallas-Fort Worth, Denver, and Phoenix, at times, have experienced significantly worse economic downturns than this region. Part of the reason why this region has been spared is the strength, or floor that these stable industries have provided, keeping this region's economy from experiencing a worse and more precipitous economic decline.

The region has invested heavily in some of these non-high value added industries, such as tourism, the uniformed military, services, and retail trade. Visitor industry expansion has been helped by investing in infrastructure like Mission Bay, Balboa Park, the San Diego Zoo and Wild Animal Park, Sea World, the Convention Center, and Cruise Ship Terminals. Uniformed Military infrastructure includes the ship yards, submarine bases, Naval air bases, and training facilities, such as Camp Pendleton. The region's major retail trade centers, auto malls and redevelopment projects are assisted with their specific infrastructure requirements. The aggregate investment in these areas are proof of the region's commitment to a diversified economy.

A second meaning of diversification is that the major focus of the proposed economic prosperity strategy is not an industrial policy. An industrial policy would require policy makers to identify which mature industries are losing their competitiveness and which emerging industries provide the best opportunities for growth. Government policies would then encourage the movement of productive resources into these emerging industries through such policies as tax incentives, subsidies, and worker training programs. The proposed economic prosperity strategy is based on assisting our existing high value added emerging growth industries, not choosing which will be

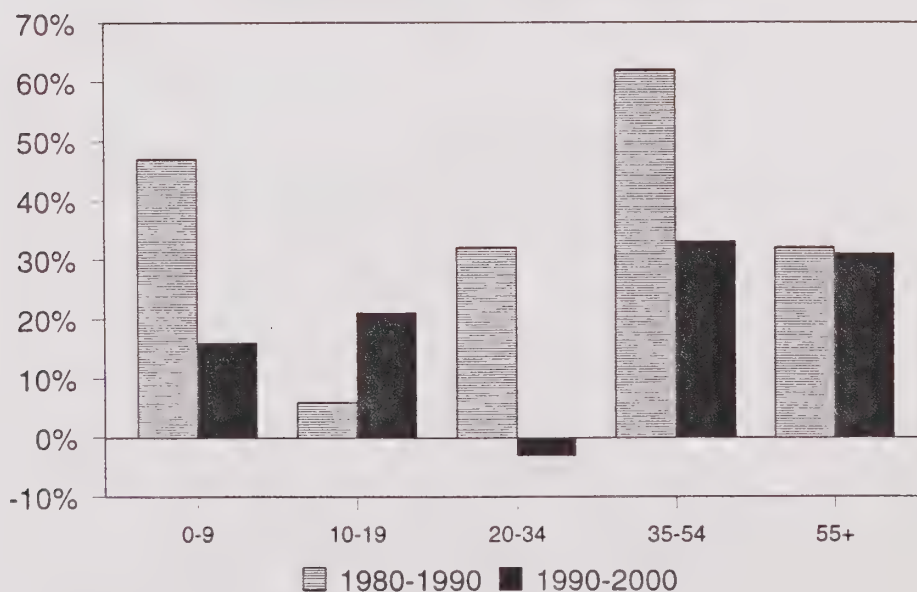
successful. Also, the types of infrastructure investments discussed in this report are ones that will provide benefits across businesses and industries, such as a more secure water supply, hazardous and low radiation waste storage sites, adequate sewage and solid waste capacity, and better direct access to the growing international trade markets.

In the area of regional infrastructure, we may now be facing choices and decisions that, on the one hand, are required by our high value added emerging growth industries, and on the other hand, in the past, were made for us by the federal government. With a limited background (tourism industry) in making the types of major regional infrastructure decisions we face today, to move forward, this region may need to bring together representatives from the business community, the educational institutions, and local elected officials. Working together on the toughest regional infrastructure issues, this group of representatives may be able to forge a decision on each issue. Each decision, what ever it may be, would allow the region to use it (the decision) as one of the many infrastructure cornerstones upon which the region's economic future will be constructed.

Changing Demographic Characteristics

The characteristics of the population growing-up provides some important planning information. Overall population growth by select age groups is shown in Figure A31. Through the year 2000, nearly all of the age groups will experience a very different rate of growth than occurred over the past ten years. The age group 35-54 over the last ten years grew by 60 percent. This growth was a result of the aging of the post W.W.II baby boom population. Growth in this age slows down over the next ten years because the population cohort aging into this population cohort is smaller than the one leaving. The large rate of growth in the 0-9 age group over the past 10 years is connected to the rise in the 35-54 age group during the same time period. The 0-9 year old increase reflects the baby echo of the post W.W.II baby boom population.

Figure A31
Population by Age Group



The age group 20-34 experiences a negative rate of growth. This reflects a fewer number of people entering this age cohort than are leaving it. This age group provides a majority of the new labor force entrants and household formations. This specific age group is looked at more carefully in Figure A32. Figure A32 shows that each of the ethnic population groups increases, except the non-Hispanic white, which declines by 45,000. The decline in non-Hispanic white population is large enough to bring the entire cohort down. Thus, a majority of the growth (net-new entrants) in households and the labor force will come from the minority population. How well this primarily minority population is prepared and the job opportunities that become available may determine their overall economic status in this region.

Figure A32
Population Ages 20-34

	Change <u>1990-2000</u>
Hispanic	15,500
Non-Hispanic	
White	-45,800
Black	2,400
Asian/ Other	12,200
All Ethnic Groups	-15,700

In the near term, the Occupational Outlook for San Diego County, 1992, shows that a majority of the growth in jobs forecast for this region are primarily service sector jobs. SANDAG's long term employment outlook concurs with this forecast, with nearly 70 percent of the region's employment growth occurring in the service and retail trade sectors. Thus, the forecast of job growth is primarily low value added jobs, that are at the lower end of the salary scale, and require the least education and training of it's workers.

One indicator of how well our labor force is being trained is the status high school drop out rate. In 1990, the local status high school drop out rate was 18.2 percent, compared with the national rate of 12.1 percent. Part of the reason for the local dropout rate being higher than the national average may be connected to the relatively higher status dropout rates for Hispanics. In the west region of the United States, Hispanic status dropout rates during 1990 rose to nearly 40 percent, compared to an overall status drop out rate for the west region of nearly 15 percent. As shown in Figure A32, a majority of the labor force's net-new entrants are expected to be Hispanic. This trend, if it continues, may affect the quality (education) of this region's labor force, as well as its own economic status in the region.

Throughout the 1990s and beyond, the economic status of our labor force's new entrants, which are expected to be primarily from our minority communities, may be determined by the quality of the job opportunities available and the quality of their preparedness.

SITE SELECTION CRITERIA

This section of the report reviews site location studies and determine the opportunities and constraints which are present in the San Diego region. Additionally, information is provided on public and private organizations which affect economic development in the region.

The economic problems currently faced in the region are exacerbated by the ongoing recession and tend to mask the underlying reasons for the areas hardships. As the region maps out a new economic development policy it must realize that with the restructuring of the Soviet Union, and the globalization of trade, the world has entered a new economic era. The ramifications of this demise are felt not only nationwide but locally as well.

The San Diego region became accustomed to a set of economic "rules" which relied heavily on expenditures by the Department of Defense (DoD). Infrastructure improvements, local government regulations, and the types of businesses which located here, were in large part a function of federal government spending. This spending has had a great deal of influence on the

regional economy since World War II resulting in an unbalanced economic base, one which relied heavily on one customer-- the Department of Defense. With this primary source of financial support rapidly downsizing, our economy must adjust. Policies which may have worked in the past, may no longer foster the same economic prosperity the region is accustomed to. Assumptions regarding why, or which companies located here in the past may no longer be valid as we enter the new economic era.

Realizing that the problems we face today are not only short-run, recession related, but also contain a significant long-run structural component, we can develop an economic policy which bolsters the economy in the near term and provides for a creative long-range strategy providing economic opportunity and prosperity to the next generation of San Diegans.

Summary of Site Selection Criteria Findings

- ♦ Two primary goals of this economic development strategy are to provide the region with a rising standard of living and at the same time maintain its quality of life.
- ♦ In order to achieve these goals, the region should develop a new "tailor made" economic prosperity strategy that is focused internally and built on the foundation of its high value added industries.
- ♦ A major risk of not achieving a rising standard of living may be to compromise our established public facility service standards and objectives.
- ♦ The importance of a certain site location criteria such as housing costs, regulations or water availability may be understated in national level surveys. Factors such as these can be regionally important criteria but do not rate high on national surveys because the presence or lack of these factors may be important enough in and of themselves to disqualify a site as a potential location. After disqualifying "obvious" locations, firms then use more universal criteria such as market access, labor costs and financial incentives to make their final site location.

- ♦ In general, site selection studies rank "Labor" (cost, quality and availability) as the most important criteria when selecting a location for their businesses. San Diego ranks favorably in this respect but could lose its comparative advantage if our future labor force is not properly prepared to fill the high value added job opportunities that could be created locally.
- ♦ "Market Access" is generally ranked second in importance after "Labor." San Diego is currently at a comparative disadvantage due to our geographic location and constrained transportation infrastructure. This is especially true if our market is international trade.
- ♦ "Financial Incentives and Inducements" ranks as the third most important site location criteria. San Diego is at a comparative disadvantage as our land costs, construction costs and lease rates are among the highest in the nation, and our incentives among the lowest, resulting in a high cost of doing business that are not offset by other financial inducements.
- ♦ Infrastructure such as the availability and cost of energy and water, ranks fourth in importance. San Diego again has a comparative disadvantage in this category as our utility costs are high, and the long-term availability of water is tenuous. Another infrastructure issue that may be important to the emerging growth companies in the Bio-tech and Bio-med industry is a low-radiation waste site.
- ♦ The fifth and final site selection criteria in order of importance is the "Quality of Life" the region has to offer. San Diego has a comparative advantage resulting from our climate and diversity of recreational amenities. This advantage is being eroded by factors such as increasing crime, traffic congestion and costs of living. In some ways, our region cannot afford "standards" we have set.

Characteristics of Preferred Site Location

Most businesses make their location decisions based upon an area's current opportunities and constraints. They rely little, if any, on possible future amenities. Therefore, the focus of this section of the report is on short run opportunities and constraints which have immediate effects on business location decisions.

Businesses usually make site location decisions for the long term. As a result, they are depending on local governments to maintain consistent long term economic development policies; policies that allow businesses to feel welcome in the community and to feel comfortable with their location and expansion decisions. Taken together, these long-term policies are our collective "vision" for the region's economy. These policies should recognize our opportunities and the region's constraints, maximizing the one and minimizing the other.

The site selection criteria used by companies in making their location decisions vary greatly. Nevertheless, there are certain criteria that are important to most businesses. Most site selection studies rate labor costs, real estate related costs, market accessibility, infrastructure, taxes, regulations and quality of life factors as important site selection criteria. Businesses weigh these factors when selecting the site best suited to their needs. The importance of certain site factors which weigh heavily in the San Diego region such as: housing costs, availability of water, and the perception of over regulation by government could be construed as "local problems" and therefore be understated in the national level surveys reviewed in this report. The San Diego region offers a unique set of characteristics or opportunities where certain businesses can thrive.

As business location factors are discussed below, it is important to keep in mind that many local site location decisions have been influenced by one large, unique market force: the Department of Defense. Site location decisions made by businesses with one major client/market (DoD), are different from those made by businesses with multiple clients and markets. The site location factors our region will need to compete in the future may be very different from the ones we are offering today.

Characteristics the San Diego Region has to Offer

San Diego offers many natural amenities which make the region a desirable area in which to locate a new business or to expand existing ones. The flourishing local tourism industry is an example of an industry taking advantage of natural amenities such as the extraordinary climate and diverse geography. The diversity of the region is apparent: looking to the west, the Pacific

Ocean offers fishing, recreational and international export possibilities. To the south lies Mexico with its tourism and trade opportunities. Looking east are the mountains and deserts offering a wide variety of year round activities and amenities for residents and visitors alike. And finally, to the north, lies Los Angeles with its many recreational and business or market opportunities. Geographically speaking, San Diego offers a wonderful and unique environment for almost any one considering a place to live. Economically speaking, San Diego offers a diverse set of industries, an educated work force, a superb university system and many opportunities not yet realized which may result from NAFTA or trade growth along the Pacific Rim. The superb climate allows businesses and transportation systems to operate year round without interruptions from inclement weather. From a social perspective, San Diego offers a diverse multi-cultural population with many minority owned businesses and many cultural opportunities.

The region does have some inherent constraints which may pose problems for businesses considering locating here. Because San Diego is in the Southwestern corner of the nation, transportation costs, market access times, and proximity to customers and suppliers are higher than more centrally located regions in the United States. The fact that San Diego is a coastal desert and requires most of its water to be imported may limit those business which require large quantities of water in their processes.

The region also exhibits a number of societal and governmental opportunities and constraints. Identifying these factors, assessing their impacts on the economy, and obtaining regionwide agreement on appropriate, consistent long-term policies are the most important tasks of this project.

Review of Site Selection Studies

Five studies related to "site selection" or "why businesses choose certain site locations for their operations" were reviewed for this report. This section briefly identifies the five studies and explains the focus of each. The studies are referred to throughout the remainder of this section only by name. See summary table, Figure A33.

Area Development Magazine, December 1991, "Corporate Executives Rate Site Selection Factors." In their survey of site selection factors, the editors of this article look for trends that reveal the concerns of corporate executives in selecting sites and planning for future operations. Participants are asked to rate 32 criteria related to labor, transportation, finance, quality of life and "other" factors.

Council on California Competitiveness, April 23, 1992, "California's Jobs and Future." This study was the result of a group formed by Governor Pete Wilson in December of 1991. Chaired by Peter Ueberroth their charge was to study those problems which seemed to impede the state's economic development and progress. Their results focus on reasons businesses leave California or barriers keeping them from locating here. Among the major obstacles to providing a successful business climate are: workers' compensation costs, government regulations, education and training, and the legal system.

Ernst & Young, June 1992, "Reshaping America - The Migration of Corporate Jobs and Facilities." This study was prepared to provide insight into the economic, social, and political factors that determine the location decisions for U.S. commercial and public organizations. The survey participants were requested to rank the relative importance of 28 location variables pertaining to real estate related costs, market accessibility, taxes, quality of life, labor quality/availability, and infrastructure.

Fortune Magazine Study, May 1989, "Corporate Site Selection for New Facilities." The study is a survey of the largest corporations in the U.S. in an effort to understand what factors influence a company when it decides to relocate its headquarters or manufacturing plants. Of the 54 factors corporate executives were asked about, only three of the top ten criteria were the same for both company facility location and manufacturing/processing plant location. They are: easy access to domestic markets, customers and clients; reasonable government/state and local tax structure; and fair-market property costs.

San Diego State University, Bureau of Business and Economic Research, April 1991, "Executive Perceptions of the San Diego County Business Environment: Trends in High Technology." This study addresses local issues relating to criteria influencing location behavior and attitudes of senior executives of high tech firms. The study is based on a survey of 226 high tech firms in 1987 and again in 1990 regarding criteria influencing location, how executives perceive the business environment, how the attitudes are changing over time and how firms are expanding or relocating.

Synopsis of Studies

Three of the four studies reviewed surveyed firms nationwide with one study, the SDSU study, surveying only local firms. Because of the way the questions are asked, it is impossible to compare the studies point for point. However, there are marked differences between what firms currently located here find important and firms located nationwide find important.

The one criteria that all four studies rated as important were "Labor" variables. The availability and cost of labor are a large component of almost any production process and therefore important to almost all firms. San Diego, which currently offers a skilled and educated work force, thanks in part to the superior education and training system, is well positioned to provide labor to firms offering high value added products. Firms requiring highly skilled labor and the access to a strong university presence, view San Diego favorably when considering site location. Although our current labor force may be adequate in skills and education, the SANDAG Prosperity report showed a trend in high school drop out rates that if it continues, will affect the quality of our labor force.

Other criteria which rates as important to the national firms surveyed but does not rate as highly with local firms are; Regulations variables, Tax variables, and Market Access variables. These criteria are extremely important in the site selection process and the discrepancy in perceived importance may be explained in the following way: Firms which have considered San Diego as a

location in the past, are those which are the least affected by these criteria and most affected by other variables such as the quality of life and availability of skilled, educated labor. Firms focusing on this region's attributes may be the high value added firms that are in the early phases of research and development. They require a skilled and educated labor, which San Diego has, and are not as concerned about regulation and taxes in the short run as other firms, since little or no products are produced that would be subject to regulatory process or taxes. On the other hand, firms producing products which would be subject to the regulatory process (waste disposal, building regulations, environmental regulations, or government attitude) or tax structure (corporate taxes, personal taxes or property taxes) may rule out San Diego as a site for their facilities. For this same reason, market access as a site selection criteria may not be immediately important. Also, companies that produce a product which are of lower value or higher weight find that San Diego is not an ideal location to build new facilities. This may hinder our diversification efforts.

Not surprisingly, the other location factor in which San Diego rates highly is "Quality of Life." From the surveys it can be inferred that certain variables in this category are important to firms currently located in San Diego while others are not. For instance, climate and the CEO's desire to live in San Diego are important to local firms. Furthermore, these variables are not even mentioned as criteria in the national surveys. On the other hand, firms which find Quality of Life factors such as low crime rate, cost of living, and housing affordability do not choose to locate in the San Diego region.

Figure A33
Site Selection Factors
(Rankings)

Site Selection Criteria	Area Development Magazine Study	Ernst & Young Study	Fortune Study	SDSU Study
	Rank	Rank	Rank	Rank
Labor	#2 Labor costs	#2 Educated workforce	#2* Cost of Labor	#1 Availability of technical emps.
	#6 Availability of skilled labor	#15 Low cost of labor	#9* Availability of skilled workers	#4 Productivity of labor
	#12 Low union profile	#16 Labor relations	#9* Extent of unionization	#5 Employee turn over rates
	#14 Right to work state	#18 Industry specific skills	#18* Availability of unskilled and semi-skilled labor	#6 Low union activity
	#16 Availability of unskilled labor	#19 Availability of training		#7 Labor costs
	#19 Worker/technical training programs			#9 Availability of skilled workers
Financial Incentives & Inducements	#4 Occupancy & constr. costs	#1 Low lease rates	#4 Space for expansion	#8 Price of land
	#5 State & local incentives	#4 Low construction costs	#8 Fair-market property costs	#10 Space for expansion
	#7 Tax exemptions	#12 Rent concessions	#11* Fair-market construction costs	#11 Proximity to universities
	#10 Cost of land		#20 Tax abatements	
	#11 Avail. of long term financing			
Regulations	#8 Environmental regulations	#12 Regional growth planning	#6 Community receptiveness	
		#7 Government attitude towards business	#21 Government posture on environmental controls	
			#22 Government programs and personnel	
Taxes		#8 Property taxes	#7 Corporate tax structure	
		#10 Corporate business taxes	#14 Personal tax structure	
		#24 Personal income taxes		
Market Access	#1 Highway accessibility	#3 Major highways	#1 Access to highways	
	#13 Nearness to markets	#5 Primary consumer markets	#2* Access to domestic markets	
	#15 Nearness to suppliers	#11 Airport facilities		
	#18 Accessibility to airport	#25 Proximity to suppliers		
Infrastructure	#3 Energy costs and availability	#6 Energy and Telecommunications availability	#5 Availability of electricity	
	#9 Telecommunications availability		#11* Stable energy rates	
	#17 Availability of raw materials		#13 Availability of water supply	
			#15 Availability of natural gas	
Quality of Life			#17 Availability of waste facilities	
		#9 Low crime rate	#16 Cost of living	#2 CEO wanted to live in area
		#13 Cost of living	#18* Housing Affordability	#3 Climate
		#14 Housing affordability		#12 Recreation & Cultural Amenities
		#20 Recreation & Cultural Amenities		

* indicates a tie in ranking

Difficulty in Quantifying Characteristics

Site selection criteria are difficult to quantify for several reasons. The first difficulty arises because each firm selecting a location for its business looks at different criteria and weighs each factor differently in its decision making process. For instance, "proximity to suppliers" varies depending on the type of inputs a firm requires to produce its products or render its services.

"Labor Costs" can be measured in dollars per hour but vary significantly depending on the skills required by individual firms, and provide no direct measure of productivity. The second difficulty in quantifying site selection criteria is that many of the variables are qualitative in nature or not directly measurable. For instance, a local government's "flexibility" or "pro-business" attitude is an important criterion to many businesses, but difficult to measure. In cases where criteria are directly measurable, figures are presented in this report whenever possible.

Specific Selection Criteria

Labor

Factors associated with labor, such as labor costs, labor availability and worker recruitability, and access to educational institutions are all significant factors considered by companies wishing to locate or expand in the San Diego area. Labor costs are difficult to quantify because they vary by skill type and vary by industry. Recruitability of key workers and union presence are both considerations businesses take into account. However, these criteria vary by skill type and industry and are, therefore, difficult to quantify. The San Diego region is home to 18 universities and colleges, and there are a number of job training programs from which skilled workers can be recruited.

The "Area Development" study ranks labor costs as the second most important criterion considered by corporate executives in their location decisions. In fact, 96% of the executives surveyed felt this criterion was important or very important. Other factors related to labor

ranked by the Area Development survey include: availability of skilled labor (81%); low union profile (74%); right to work state (67%); availability of unskilled labor (61%); and worker/technical training programs (53%).

The Ernst & Young study ranks an educated work force as the most important labor variable with 95% of the respondents ranking it as moderately important or very important. This is followed by availability of low cost labor (79%); labor relations (79%); industry specific skills (79%); and availability of continuing education programs or job training programs (78%).

The Fortune Magazine study rates cost of labor as the most important labor variable. Nearly 74% of the manufacturing/processing plants who moved in the past five years or are expected to move in the next five years citing this as a "most important factor." This was followed by the availability of skilled workers (64%); extent of unionization (64%); and availability of unskilled or semiskilled workers (50%).

According to the SDSU study, among the most important criteria related to labor that influenced the location decision of industrial businesses in the San Diego region (listed in order of importance) are: the availability of technical employees (74%); productivity of labor (69%); employee turn over rates (68%); low union activity (61%); labor costs (57%); and availability of skilled workers (53%). Also listed but to a lesser degree are: proximity to universities (46%); the availability of management employees (40%); availability of unskilled workers (30%); health care costs (25%); and welfare costs (17%).

Financial Incentives and Inducements

One of the largest expenses, associated with "doing business" and consequently an important site selection criterion is the cost related to land or real estate. Lease rates, construction costs and incentives from local governments such as rent concessions or tax exemptions all play an important role in site selection.

The Area Development study finds that occupancy and construction costs are important or very important to 89% of the corporate executives surveyed. This is followed by state and local incentives (81%); tax exemptions (79%); the cost of land (76%); and the availability of long term financing (74%).

The Ernst & Young study cites low lease rates as the number one criterion for site selection with 98% of the survey respondents feeling that this was an very important or moderately important factor. This is followed by low construction costs (93%); and up front rent concessions (78%).

Fortune Magazine finds that ample area for future expansion is the most important finance/inducement criterion with 73% of the manufacturing firms citing this reason. This is followed by fair-market property costs (67%); fair-market construction costs (61%); and tax abatements & other financial incentives (48%).

The SDSU study ranks the price of industrial/commercial land as the most important factor with 53%. This is followed by space for industrial expansion (46%); and proximity to universities (46%). Other financial inducements or incentives are mentioned in this study. However, few (less than 33%) responded that they are important or very important factors.

Regulations

In an attempt to safeguard the environment and protect our delicate ecology, federal, state and local agencies have instituted policies which regulate water quality, air quality, solid and hazardous waste disposal, and protection of endangered species among many others programs. The need for these programs is well documented. However, some feel that the regulatory system and permit process used to initiate these programs have evolved into labyrinth of overlapping regulations, which at times duplicate and even contradict each other. For example in Los Angeles County, there are 72 federal, state or local agencies with environmental authority. Of these, 39 agencies have water quality authority, 38 agencies have hazardous waste authority, 17 with air quality authority, and 14 with solid waste authority. Complying with all the redundant

and costly regulations imposed by these agencies, costs businesses millions of dollars, and in many cases, years of delays. This creates an atmosphere which is less than conducive to business wishing to expand or locate here. Locally, for example, because of the difficulty in getting a permits for a new manufacturing plant, Rohr Industries moved to Arkansas, where permits for its new plant cost \$750 compared to \$750,000 in California¹.

During the last decade, workers' compensation costs in California have risen 200 % while the work force increased only 25%. The rising costs associated with workers' compensation and the ease of filing fraudulent claims in the state, jeopardizes the profitability of all businesses. But is particularly onerous to small and medium sized firms. This additional "cost" of doing business in California makes San Diego less appealing as a possible business site and increases the problems faced locally.

On the other hand, there are areas which cater to businesses and offer incentives to corporations locating their businesses in specific areas. Areas within the San Diego region for instance, are focusing on or establishing programs such as enterprise zone tax credits, training programs for the hard-core unemployed, fast track permitting, bridge loans to small businesses, and other creative financing incentives.

The Area Development study finds that environmental regulations are important or very important to 78% of corporate executives.

The Ernst & Young study sites regional growth planning as the number one regulatory concern at 83%. This followed by government attitude towards business at 82%.

Fortune Magazine finds community receptivity to business and industry as the most important governmental inducement at 70% , followed by government posture on environmental controls (48%); and good government area development programs/personnel (47%).

¹ California's Jobs and Future, Council on California Competitiveness, April 23, 1992

Taxes

Businesses consider the tax structure of an area, such as corporate taxes, personal taxes, property taxes and workers compensation, as having a direct affect on the profitability of their company. In 1989-1990, the collection per capita of corporate income tax in California was nearly \$165 compared to \$49 in Arizona and \$41 in New Mexico. No corporate income taxes are charged in Texas, Washington and Nevada². Of all 50 states, California ranked 9th in total state and local tax revenue collected per capita during fiscal year 1989-1990 (\$2,226). Using total tax revenue collected per \$1,000 of personal income, California ranked 20th (\$115).

The Ernst & Young study ranks property tax rates as the most important tax consideration with 87% of the survey respondents rating it as moderately important or very important. This is followed by corporate business taxes (82%); and personal income taxes (66%).

In the Fortune Magazine study, 68% of the survey respondents ranks "reasonable government/state and/or local corporate tax structure" as the most important tax consideration, followed by "reasonable government/state and/or local personal taxes with 57%.

Interestingly, the SDSU study finds that only 17% of the local business they surveyed considered the local tax structure important or very important. This may suggest that companies sensitive to taxation have chosen locations other than San Diego and that those companies who are located here are concerned more with other location issues.

Market Access

Market accessibility is difficult to quantify as criteria varies by industry. San Diego is at a geographic disadvantage when compared to areas in the center of the United States when one considers proximity to natural resources, transportation costs, and European markets, to name a few. Locally, this has lead to the growth of industries which do not require large amounts of raw materials, such as bauxite, timber, ores etc., but rather those industries which require higher

² Ibid

value added products such as precision measuring instruments, electronics, telecommunications and those industries requiring highly skilled or specialized labor. Transportation availability and costs are important to businesses choosing a site location. Depending on the type of product produced, different forms of transportation are required. Air, rail, port, and highway facilities are utilized in different proportions depending on the type of product produced. Proximity to suppliers and to major markets is also important transportation consideration. Access to highway systems, airports, rail, and port all play an important role in a businesses location decision. Each business must locate in an area where their goods can be moved easily and cheaply to market.

The Area Development study lists highway access as the leading location factor with 96% of the survey respondents rating it as important or very important. Nearness to major markets ranked second with 69% followed by nearness to suppliers (63%); and accessibility to major airport (57%)

The Ernst & Young study indicates that major highways are the most important transportation infrastructure with 93% of the survey respondents listing it as moderately important or very important. This is followed by access to primary consumer markets (85%); airport facilities (77%); and proximity to suppliers (59%).

The Fortune Magazine study rates easy access to trucking services (access to highways) as number one with 79% rating it as one of the most important factors in selecting a site. Access to domestic markets ranks second with 74%. Ranking less importantly are; easy rail access and efficient transportation facilities for employees tied with 40%; followed by easy access to airports (34%); and easy access to water transportation (19%).

The SDSU study, which focuses only on local Bio-tech and electronics companies, ranks transportation for materials and products as the most important factor with 32% of the survey respondents ranking it as important or very important. This is followed by proximity to suppliers (29%); and proximity of customers (25%). This study, which concentrates on local existing

firms, ranks transportation variables significantly lower than the other studies. One reason for this may be that the type of companies which have located here in the past do not require extensive transportation networks. The firms may have factored into their site selection analysis any transportation constraints which may exist in the San Diego region.

Infrastructure

One of the primary concerns businesses have when selecting a location for a site is the area's infrastructure. Highway accessibility, electricity and gas costs, airport, and port facilities as well as sewer and water capacity are all relevant site selection criteria. San Diego offers an extensive highway infrastructure internally with access to Los Angeles to the north via two major freeways and one major route to the east. In 1990, 58% of the local freeways miles during the afternoon commute rated as "E" (significantly) or "F" (severely) congested compared to 35% in 1985. The average round-trip daily commute time in 1989 was 43.1 minutes compared to 49.7 minute average in the United States. Cost and availability of power are also considerations in site location. In San Diego, electricity costs average \$0.12 per kilowatt hour and gas costs average \$0.54 per therm. Distribution of manufactured products is accomplished primarily by air, rail or shipping. San Diego's Lindbergh Field currently handles approximately 207,000 total aircraft operations and approximately 90.6 million pounds of air freight. The port facilities in San Diego handled 395 commercial calls in 1988/89 and 1.3 million metric tons of cargo. In San Diego during 1991, the level of freight activity was approximately 13,000 freight cars along the coastal corridor and approximately 2,000 freight cars along the Escondido branch. Currently, the existing coastal corridor tonnage is handled in only one, a 40-car train per evening.

According to the Area Development study, energy availability and costs are the most important infrastructure site selection criteria. Over 89% of the executives surveyed rated this as important or very important. This is followed by the availability of telecommunication services with 79%; and the availability of raw materials with 59%.

The Ernst & Young study shows that 92% of the survey respondents felt energy and telecommunications systems are important or very important site selection criteria.

The Fortune Magazine study rates easy accessibility to electricity the most important infrastructure concern among manufacturing plants who have considered or are considering relocation with 71% of the survey respondents rating this as one of the most important factors. This is followed by stable energy rates (61%); availability of water supplies (58%); availability of natural gas (55%); and the availability of civic waste treatment facilities (51%).

The SDSU study shows that, local San Diego firms consider infrastructure factors as less important than other criteria, ranking the cost & availability of energy supplies (33%); and water supply & costs (10%).

Quality of Life

The amenities a city or region has to offer often tip the scales in favor of one area over another when companies select a site for their businesses. Quality of life factors include those variables which make an area more or less attractive from a human perspective. These factors include the cost of living, housing affordability, recreational and cultural amenities, the primary educational system, health care facilities, crime, and the climate.

The Ernst & Young survey found that a low crime rate is the most important quality of life factor with 88% of the survey respondents rating this as important and very important. This is followed by the cost of living (86%); housing affordability (86%); and proximity to recreational and cultural amenities (76%).

The Fortune Magazine study ranks cost of living as the most important selection criteria with 54%. In addition, affordable housing is mentioned by 50%. Furthermore, good public school systems are mentioned by 41% of the survey participants and low crime rates with 34%.

Results from the SDSU survey show that the most significant quality of life factor is that the owner/CEO wanted to live in the area (74%); followed by climate (73%); and to a lesser extent, the proximity to recreational/cultural facilities (44%).

APPENDIX 3
ECONOMIC DEVELOPMENT AGENCIES
AND THEIR RESPONSIBILITIES

ECONOMIC DEVELOPMENT AGENCIES AND THEIR RESPONSIBILITIES

INTRODUCTION

In order for the objectives of the Regional Economic Prosperity Strategy to be achieved, agencies and organizations need to be identified that may be able to assist in their implementation. One of the committee's objectives, and the purpose of this section of the report, is to identify agencies and organizations which may be tapped out to help implement the objectives of the strategy.

As a starting point, past reports identifying agencies and organizations which affect economic development were reviewed. The most comprehensive list of public agencies is found in is the SAN DIEGO ECONOMIC PROFILE 1977, compiled by the Economic Research Bureau of the Greater San Diego Chamber of Commerce. The profile is the foundation on which staff based this study, updating the information on those agencies included in this report.

Current Economic Efforts

As the severity of the current economic downturn continues to worsen many local agencies have undertaken steps to alleviate the problems, such as job loss that the region has experienced. The efforts currently under way fittingly complement the recommendations proposed in this study. They address immediate concerns such as, retraining defense related employees to other high-tech environments, business retention, and streamlining the permit process. Furthermore, other organizations are encouraging specific long term projects such as promoting foreign trade and expanding existing infrastructure projects. Each individual effort has a positive affect on the local economy in the area on which it is concentrated. Taken together, they may help us get out of the current economic slump and regain some of the economic prosperity the region lost in the last few years. However, the region lacks an overall economic plan which provides a framework for long term economic success, one which provides the necessary infrastructure for new and existing business to flourish. The current effort underway differ from the objectives proposed in

this report in that the current efforts draw upon current opportunities available in the region and "market" them to businesses, while the strategy proposed in this report focuses on improving and providing an infrastructure of both physical and human which in turn local agencies can then market. The efforts of this strategy are designed specifically to complement current efforts and not to duplicate them.

The following is a sample of the type of efforts currently being undertaken by local agencies.

Business Retention and Job Creation

Since the onset of this current recession in the San Diego Region, several agencies have began a push to retain and attract manufacturing jobs. EDC is involved in ongoing Team San Diego efforts. Team San Diego brings together public and private sector support for economic development.

Among others, results for FY 1992-93 include: face-to-face meetings with 100 companies representing 26,400 jobs; retaining 12 companies affecting 2,167 primary sector jobs with an economic impact of \$140 million; and attracting 6 companies with 370 new jobs with an economic impact of \$62.9 million; 25 new qualified prospects; and 88 ongoing prospects. These undertakings complement Objective 4 of the Economic Prosperity Strategy, which encourages the expansion of locally owned businesses which create jobs in high-paying industries.

Marketing

Several organizations aggressively market the San Diego region as a desirable place open a business, expand an existing business, or visit as a tourist. The City of San Diego for instance, has established outreach, ombudsman, and public and private incentive programs which assist in retention and expansion of existing San Diego businesses. Furthermore they promote the attraction of businesses which provide employment opportunities for San Diego residents the contribute to the region's quality of life. ConVis promotes San Diego to various audiences, which results in an increased amount of business. Efforts and achievements include booking convention and trade shows, marketing/advertising, promoting the travel industry both domestically and internationally. These efforts, although not directly related to the Objectives of the Economic

Prosperity Strategy promote the intent of the Strategy in that they support businesses in the San Diego region.

The Defense Conversion Council

In support of the region's residents who are jobless or lack the necessary skills to secure gainful employment, the Consortium/Private Industry Council funds free job training and job placement programs throughout San Diego County. These programs are administered by the Consortium in partnership with the city, county and local public agencies and private industry. The programs are designed to serve residents of San Diego City and County who are unemployed, low income, or face serious barriers to employment. Job training and placement programs are also available for youth who have dropped out/at risk of dropping out of school, or just graduated. Providing these educational opportunities and job training programs supports in part the efforts outlined in Objective 3 of the Regional Economic Development Strategy. Objective 3 outlines as a goal for the region, ensuring a more productive labor force by properly educating, training and preparing new entrants.

Infrastructure

In addressing our critical infrastructure needs, the San Diego County Water Authority has focused efforts on improving the reliability of our water supply by diversifying its sources of supply, planning and constructing 10 pipeline projects, and by participating in statewide efforts to resolve the problems associated with the Sacramento/San Joaquin Delta and San Francisco Bay by supporting legislation to allow transfers of water from agricultural water users primarily in the San Joaquin and Sacramento valleys to urban areas in other parts of California.

Helping to improve our access to markets, the Port has launched major construction, renovation and expansion projects for Lindbergh International Airport. The \$90 million undertaking is designed to accommodate the 14.7 million passengers expected yearly by 1995. These efforts are a step in the right direction complementing Objective 2 of the Regional Economic Development Strategy which encourages the enhancement and development of physical infrastructure.

International trade

As the debate over NAFTA continues at the national level, several local agencies are aggressively forwarding the idea of international trade. The City of San Diego is supporting this idea by increasing the global competitiveness of San Diego businesses through the promotion of international trade and foreign investment and by the development of partnerships with Mexico and other trade partners. In addition, the World Trade Association, composed of corporations and individuals involved in foreign trade, actively fosters the growth and development of international trade and commerce in the greater San Diego area. The planned creation of a World Trade Center in San Diego would pull together a number of public and private organizations in the region that focus on international issues eliminating duplication of effort and assuring effective coordination. Objective 2 of the Regional Economic Development Strategy, which in part encourages the infrastructure necessary for international trade will provide the foundation upon which these efforts can draw.

RESPONSIBILITY OF IDENTIFIED AGENCIES

Determining which agencies are responsible for measuring, monitoring and ensuring economic prosperity in the region is not as clear-cut as it is with some other Quality of Life factors identified in the Regional Growth Management Strategy such as air quality, transportation systems and demand management, water quality, sewage treatment etc. Each of these Quality of Life factors is associated with an agency, or group of agencies which are responsible for insuring that some predetermined standards are met. As an example, the San Diego Air Pollution Control District (APCD) is the local regulatory agency responsible for protecting air quality and the public's health from the adverse impacts of air pollution. The APCD monitors air quality through monitoring stations, lab tests and field tests. They are able to regulate through a permit system that allows the APCD to enforce emission standards, and to pursue criminal and civil penalties for violations.

Measuring, monitoring and ensuring economic prosperity is certainly less structured. The agencies ultimately identified in this report, in some direct way, influence the six objectives

identified in the Economic Prosperity factor of the Regional Growth Management Strategy. We are suggesting that these agencies provide the first line of action to facilitate economic prosperity in the San Diego region. Nevertheless, there is no single agency or group of agencies directly responsible for measuring, monitoring and ensuring the six objectives which comprise economic prosperity.

Local Agencies

Local entities such as city and county governments affect economic development in both an advocacy and regulatory capacity. Many municipalities currently fund organizations such as redevelopment agencies to promote certain types of economic development which have been deemed important to the cities. For instance, the Centre City Development Corporation (CCDC) whose mission is to implement the redevelopment process in the Centre City area eliminating blighting influences, environmental deficiencies, and provide an orderly development including residential, commercial, and public uses in designated areas.

Through the ability to change rules and regulations which affect economic development, municipalities can either encourage or discourage economic growth by using the regulatory process. By reducing the magnitude or effect of ordinances, fees, land use policies, zoning etc. municipalities can encourage investment by the private sector in specific places and in specific amounts. On the other hand, these regulatory powers can be used to manage growth and investment by the private sector when warranted. Local government in the broad sense is not included in this analysis although individual branches with a mission statement directly influencing economic development are included.

Many special purpose agencies in the San Diego region indirectly influence economic development as a consequence of their primary purpose. Among them are agencies such as the County Water Authority (CWA) whose purpose is to provide a safe and reliable supply of water to its member agencies serving the San Diego Region. Reliable is defined by the CWA as "consistently providing a water supply that adequately supports the regional economy." The San

Diego Unified Port District also indirectly influences economic development as a result of its primary function which is the acquisition, construction, maintenance, operation, development and regulation of harbor works and improvements, including rail, water and air terminal facilities, for the development, operation, maintenance, control, regulation and management of the Harbor of San Diego. Another local agency, the San Diego Association of Governments (SANDAG) acts as a regional planning agency as well as a technical and informational resource for the area's 18 incorporated cities and the county government.

State Agencies

Many State agencies exist which influence economic development as a result of their primary purpose. Most of these agencies are regulatory in nature, protecting some aspect of the economy or environment and in the process affect economic development. These State agencies include; the California Air Resources Board which sets air quality standards that protect public health and adopts emission standards to limit pollution from motor vehicles, the California Coastal Commission whose purpose is to protect, maintain, and where feasible, enhance and restore the overall quality of the coastal zone environment and its natural and artificial resources, the California Environmental Protection Agency which is responsible for coordinating and prioritizing the State's efforts to protect the environment, the Energy Resource Conservation and Development Commission which determines the siting of major electric power plants, forecasting energy supplies and demands, developing energy conservation measures, and conducting a program of research and development involving energy supply, consumption, conservation, and power plant siting technology, the Office of Planning and Research which assists the Governor by conducting research and making policy recommendations on a wide range of matters., the Public Utilities Commission (PUC) which regulates privately owned public utilities, and the State Employment Development Department which acts as a broker between employers and job seekers; pays benefits to eligible unemployed or disabled persons; collects payroll taxes; helps disadvantaged persons become self-sufficient; gathers and shares information on California's labor markets.

Federal Agencies

Actions taken by federal agencies can often be felt locally. Currently, military base closures by the Department of Defense create shock waves that are felt by all San Diego region residents, whether in defense related industries or in other employment sectors. Examples of other Federal agencies which may have effects locally are; the Department of Housing and Urban Development (HUD) which is responsible for Federal housing programs, enforcing fair housing and improving and developing the Nation's communities, the Federal Trade Commission (FTC) which protects the American public from unfair methods of competition and upholds consumer choice and the rule of consumer sovereignty, and the Occupational Safety and Health Administration (OSHA) which develops safety and health standards, develops and issues regulations for business and government, conducts inspections and investigations to determine compliance, and issues citations for noncompliance.

Advocacy Groups

In order to more effectively present their positions, many private advocacy groups have been formed. For instance, the Construction Industry Federation promotes the building industry, Bio Com promotes the biotechnology industry, similarly the Electronics Association, UCSD Connect and other single industry agencies promote their respective interests. These special purpose advocacy groups may indirectly affect economic development but are not specifically responsible for economic development are therefore excluded from the analysis.

The brief synopsis of each agency provided in this report includes five parts:

1. Agency or organization name;
2. Contact at agency

3. Type of agency, for example regulatory, marketing, redevelopment etc.;
4. Formal mission statement or purpose -When available, the agencies mission statement is included as a summary of their calling in their own words. For those agencies which do not have an adopted mission statement, staff has interrupted their intentions or purpose and listed under the heading "Purpose";
5. Area(s) of responsibility, services offered or objectives. -This section highlights the type of work the agency is involved in. This data is derived from information received from the agencies. It may not represent the full breath or depth of the agencies work program;

Agency Name: Centre City Development Corporation (CCDC)
Contact: Irma Murnoz (619)235-2200

NOTE: Many redevelopment agencies exist throughout the San Diego region. Their main purpose is to revitalize specific areas by infusing capital and encouraging private investment in the area. The Centre City Development Corporation is one of the largest redevelopment agencies and used as an example in this report.

Agency Type: Redevelopment Agency (focus on Downtown San Diego)

Mission Statement:

"To implement the redevelopment process in the Centre City area eliminating blighting influences, environmental deficiencies, and provide an orderly development including residential, commercial, and public uses in the areas designated as Horton Plaza Redevelopment Project and the Marina Sub Area, Columbia Sub Area, Expansion Sub Area, and Gaslamp Quarter Sub Area of the Centre City Redevelopment Project."

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Redevelopment Planning:*

Arranges for public financing, negotiating with owners for improvements of their properties, acquisition of property, selects qualified developers, and negotiates developer contracts.

♦ *Rehabilitation/Preservation:*

Works at rehabilitation of appropriate structures, promotes the rehabilitation and reconstruction of historic properties, and reviews designs, and monitors both public and private construction in the redevelopment area.

Agency Name: Economic Development Services
Contact: Rudy Gonzalez (619)236-6234

Agency Type: Department within Local Municipal Government

Purpose:

"To provide the framework for a comprehensive economic development program which encourages sustainable economic prosperity throughout San Diego."

Area(s) of Responsibility, Services Offered, or Objectives:

♦*Business Attraction , Expansion and Retention:*

Promote the attraction of businesses which provide employment opportunities for San Diego residents, diversify and strengthen the economic base and contribute to the region's quality of life. Also assist in the retention and expansion of existing San Diego businesses through focused outreach, ombudsman and public and private incentive programs.

♦*Commercial and Neighborhood Revitalization:*

Encourage revitalization of San Diego's existing neighborhoods through formation and support of business and community organizations, public improvement design and construction, stimulation of private investment and related efforts within older commercial and residential areas.

♦*Redevelopment Planning and Projects:*

Utilize redevelopment as a major tool for revitalization of the City's urbanized areas through a comprehensive approach which incorporates community participation throughout the process and involves as appropriate employment, housing, infrastructure, social services and other programs.

♦*Small Business Assistance:*

Promote the growth and formation of San Diego small businesses, with an emphasis on women and minority owned businesses, through comprehensive technical and financial assistance and entrepreneurship and technological transfer programs.

♦*International Trade:*

Increase the global competitiveness of San Diego businesses through promotion of international trade and foreign investment, and by the development of partnerships with Mexico and other countries.

♦*Tourism:*

Promote, in coordination with local tourism industry, San Diego as a tourist destination through events and activities, including the arts and culture, which attract tourists to San Diego.

Agency Name: County Water Authority (CWA)
Contact: Patricia Tennyson, (619) 297-3218
Agency Type: Water Authority

Mission:

"The mission of the San Diego County Water Authority is to provide a safe and reliable supply of water to its member agencies serving the San Diego Region.*

** Note: Reliability is defined as consistently providing a water supply that adequately supports the regional economy."*

Area(s) of Responsibility, Services Offered, or Objectives:

♦*Facilities:*

Provide the necessary facilities for a safe reliable, and operationally flexible water storage, treatment, and delivery system.

♦*Resources:*

Provide the water resources necessary to maintain a safe and reliable water supply and optimize the development and use of local water resources.

♦*State and Federal Water Policy:*

Seek adoption and implementation of a comprehensive state water plan that balances competing water needs of the state.

♦*Conservation:*

Encourages water-wise behavior as a way of life for county residents. Builds and manages water reclamation facilities throughout the county. studies seawater desalination and supports programs to reclaim and reuse contaminated groundwater.

Agency Name: East County Economic Development Council (ECEDC)

NOTE: Many development agencies exist throughout the San Diego region. Their main purpose is to revitalize specific areas by marketing and encouraging private investment in the area.

Agency Type: Marketing (promotes/advocate of economic opportunities)

Mission Statement:

"To attract and stimulate investment in the local economy, increase primary employment in order to achieve better job/housing balance in the region and to promote inland east as a desirable location for business."

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Attract/stimulate investment in East San Diego County*

Acting as a resource, attracts and assists potential investors in locating sites within the area.

♦ *Promote East County as a desirable location for business*

Distributes information about Inland East. Promotes private and public policies that facilitate responsible economic growth, and market an accurate, positive image of Inland East.

♦ *Benefit the entire Inland region.*

Encourages cooperation among Inland East cities, chambers of commerce, and others with and others with an interest in the region's economic health.

♦ *Increase primary employment.*

Focuses on primary employment, those producing goods and services for export beyond the local community, due to their greater economic multipliers.

Agency Name: Economic Development Corporation (EDC)

Contact: Linda Stavola, (619)234-8484

Agency Type: Marketing (promotes/advocate of basic industry)

Mission Statement:

"To foster San Diego's regional economic vitality by assisting in the creation of employment opportunities for San Diego County residents; supporting economic growth, diversification and capital investment; and taking leadership positions on community issues that affect the local economy".

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Attracting New Business:*

Strategies to attract new business and to assist them in locating in San Diego include the marketing of San Diego in major business and trade publications, direct mail solicitations to targeted prospects in the United States and foreign countries.

♦ *Retaining Existing Businesses:*

Ongoing programs designed to retain local businesses by highlighting the benefits to staying in San Diego, targeted to high-tech, manufacturing, biomedical, biotechnology, maquiladoras and firms with corporate headquarters in San Diego.

♦ *Assist Existing Businesses:*

Assists existing San Diego businesses by sponsoring seminars and programs to meet the needs of the business community, by assisting firms in locating space to expand and by collecting and disseminating information on business trends.

Agency Name: Greater San Diego Chamber of Commerce

Contact: Max Schetter, (619) 544-1340

NOTE: Many Chamber's of Commerce exist throughout the San Diego region. Their main purpose is to encourage and supporting local businesses and provide information to the public. The Greater San Diego Chamber of Commerce is described in this report as an example of the type of services offered by these agencies.

Agency Type: Marketing (Business promotion/advocasy)

Mission Statement:

"To help its members prosper by providing information, education, and the opportunity for involvement and networking. Promoting a positive and balanced business climate in the San Diego region by providing leadership on issues, educating members about these issues and coalescing them, and like-minded organizations, into an effective force for action".

Area(s) of Responsibility, Services Offered, or Objectives:

♦*Government division:*

Closely monitors local, state, national, and international issues that affect the region's economy, and supports those that positively benefit the business community. Issues studied range from those affecting the quality of life to downtown redevelopment and overseas trade.

♦*Education:*

Works at improving the quality of educational programs available to San Diego youth by actively participating in the formulation of educational policy and ensuring adequate funding is made available to San Diego educational institutes.

♦*Small Business Development Center:*

Offers as a service to local businesses or those considering opening a business in San Diego, business management seminars, business counseling, information and referrals, and management guidebooks. Supports and encourages small business owners in San Diego and acts as an advocate for the small business community..

Agency Name: San Diego Association of Governments (SANDAG)
Contact: Eunice Tanjuaquio (619)595-5300

Agency Type: Regional Planning Agency

Purpose:
"SANDAG is the regional planning agency as well as the technical and informational resource for the area's 18 incorporated cities and the county government, who collectively are the "association of Governments." Through this voluntary Association, local governments work together to solve current problems and plan for the future."

Area(s) of Responsibility, Services Offered, or Objectives:

- ◆*Regional Transportation Planning:*
Designated as the agency responsible for regional transportation planning by both the state and federal governments, SANDAG's responsibilities include proposing plans which best satisfy transportation needs and concerns in the San Diego Region. SANDAG administers the one-half percent sales tax approved by voters in 1987 through the TransNet program.
- ◆*Airport Land Use:*
SANDAG serves as the Airport Land Use commission, charged with developing Comprehensive Land Use Plans for airports in the San Diego region.
- ◆*Regional Planning and Growth Management:*
Serving as the Regional Planning and Growth Management Review Board, SANDAG develops a cooperative and comprehensive Strategy to help residents, business people, public policy makers, and planners better manage the adverse impacts of the region's growth.

Funding/Budget

1992 Budget	\$8,904,740
Funding Source(s)	Federal Grants, State Grants, Other Grants and Contracts, Transportation Sales Tax, Transportation Development Act, Member Agency Assessments.

Agency Name: The San Diego Consortium & Private Industry Council (PIC)

Contact: Earl Parker, (619) 238-1445

Agency Type: Publicly funded clearinghouse operated throughout the state.

Mission Statement:

"To provide job training that will increase employment opportunities for unemployed, disadvantaged adults and youth in the County of San Diego."

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Job Training:*

Through the San Diego Career Center, provides one-stop center for career assessment, job training and placement for unemployed San Diego City and County residents and to help companies facing layoffs or plant closures and companies hiring new employees.

♦ *Youth Employment Opportunities:*

Promotes youth employment and skills training through the Hire-a-Youth program in coordination with the state's Employment Development Department.

♦ *Adult Employment Opportunities:*

Provides job training programs to help prepare participants for employment by providing job skills, career and education counseling. Also responsible for investing state and federal funds in job training programs for the region.

Agency Name: San Diego Convention & Visitors Bureau (ConVis)

Agency Type: Marketing (promotes/advocate of visitor/convention industry)

Mission Statement:

"The San Diego Convention & Visitors Bureau is a community organization, with the goal of developing, promoting and maintaining healthy convention and visitor industry in the San Diego region, in a manner that will benefit the community economically, culturally, socially, and environmentally".

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Promote San Diego as a Vacation/Convention site:*

Represents and supports the interests of the visitor industry, which in turn generates revenue for the City through tourism. Conducts national campaigns in marketing and public relations to increase San Diego's visibility.

Agency Name: San Diego Dialogue
Contact: Andrea Moser, (619) 534-8250

Agency Type: Forum

Purpose:

" To promote a renewal of civic discussion, thoughtful research, and consensus-building on the future of the San Diego Region, and encouraging in-depth discussion of new ideas and a full exchange of views".

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Economic Future:*

The first issue that the Dialogue concentrates on is the region's economic future. Issues such as infrastructure needs, effective transportation systems, and primary educational system are discussed.

♦ *Social Diversity:*

The second issue the Dialogue focuses on is social diversity. Issues discussed include; illegal employment migration, distribution of jobs within sectors, the social service system as it relates to first generation immigrants, and affordable housing.

♦ *Regional Governance:*

The third issue the Dialogue discusses is the inevitability of interdependence between San Diego, Tijuana, Riverside, Orange and Imperial Counties now and in the future.

Agency Name: San Diego Unified Port District
Contact: James Anderson, (619) 291-3900

Agency Type: Port Authority

Purpose:

"For the acquisition, construction, maintenance, operation, development and regulation of harbor works and improvements, including rail, water and air terminal facilities, for the development, operation, maintenance, control, regulation and management of the Harbor of San Diego..."

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Marine Operations:*

Manages the District's cargo handling facilities , Cruise Ship Terminal, and several mooring areas and commercial piers. Provides waterfront services to ships calling at the Port and administers various tariffs and Port District regulations.

♦ *Lindbergh Field:*

Responsible for enforcing rules and regulations necessary for the operation of San Diego's air carrier facility. In coordination with FAA tower personnel, takes charge of any emergency situation which might arise concerning public safety. Works to make Lindbergh Field a better neighbor to the surrounding community.

♦ *Property Management:*

Management of a wide variety of leases on the trust tidelands is a major responsibility of the Port District, administering the leases on more than 500 firms with offices and plants around San Diego Bay

♦ *Recreation:*

Provides for capital improvements and maintenance of recreational facilities in the Bay and on the oceanfront such as fishing piers, parks, bike paths and boat launch ramps. Maintains and improves and provides public access to areas such as Shelter and Harbor Islands, the Embarcadero, and the Imperial Beach Pier.

Agency Name: South County Economic Development Council (SCEDC)

Contact: (619) 336-2474

NOTE: Many development agencies exist throughout the San Diego region. Their main purpose is to revitalize specific areas by marketing and encouraging private investment in the area.

Agency Type: Marketing (promotes/advocate of economic opportunities)

Purpose:

"To improve South County's economy, image and quality of life by encouraging private investment in South County and promoting diversified residential and overall business development."

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Attract/stimulate investment in South San Diego County*

Attracts and assists potential investors by marketing the developing Port District facilities, its Enterprise Zone and Foreign Free Trade Zone and its strategic positioning in the Pacific Rim economy.

♦ *Promote South County opportunities*

Publicizes the cultural, educational, social and geographical opportunities of the South San Diego County area.

Market South County's proximity to Mexico

Markets South County's unique geographic assets such as, proximity to Mexico availability of land, reasonable cost structures, growing international labor pool, developing Port District facilities, its Enterprise Zones and Foreign Free Trade Zone, and its strategic positioning in the Pacific Rim economy.

Agency Name: California World Trade Commission

Contact: Cassie Stiles, (619) 699-3030

Agency Type: Export Development

Purpose:

"Undertakes numerous activities to encourage international trade and development. The commission's responsibilities include coordinating international trade activities, providing loan guarantees for exporting, conducting trade research, and providing trade policy input."

Area(s) of Responsibility, Services Offered, or Objectives:

♦ *Export Development Program:*

Offers export marketing services designed to help California's small and medium-sized companies. Helps with exhibit preparation, documentation, consolidated freight shipment, group travel and interpreters.

♦ *Export Finance Program:*

Provides working capital loan guarantees to financial institutions on behalf of small and medium sized California companies in support of export transactions. Including short-term working loans for specific orders, revolving lines of credit and direct loans and /or stand by letters of credit.

♦ *Trade Policy/Research and Information*

Advocates public policies that enhance California's ability to compete in international markets. Also assists exporters by providing information such as trade and economic statistics and foreign country background briefs.

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